INTERNATIONAL CULTURAL AND TRADE CENTER [ICTC] AMENDMENTS
AND
CONSTRUCTION MANAGEMENT AS A MEANS TO REDUCE OR CONTROL FEDERAL CONSTRUCTION AND RENOVATION COSTS

(101-29)

HEARINGS

BEFORE THE

SUBCOMMITTEE ON
PUBLIC BUILDINGS AND GROUNDS

OF THE

COMMITTEE ON
PUBLIC WORKS AND TRANSPORTATION
HOUSE OF REPRESENTATIVES

ONE HUNDRED FIRST CONGRESS

FIRST AND SECOND SESSIONS

NOVEMBER 14, 1989; MARCH 8, 1990

Printed for the use of the Committee on Public Works and Transportation

U.S. GOVERNMENT PRINTING OFFICE
25-738 WASHINGTON : 1990

For sale by the Superintendent of Documents, Congressional Sales Office
U.S. Government Printing Office, Washington, DC 20402

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CONTENTS

Page

Proceedings of:
- November 14, 1989 1
- March 8, 1990 65

NOVEMBER 14, 1989

SUBJECT: INTERNATIONAL CULTURAL AND TRADE CENTER [ICTC] AMENDMENTS 1

TESTIMONY

Hauser, Richard A., chairman, Pennsylvania Avenue Development Corp. [PADC] Board, accompanied by Jay Brodie, executive director, PADC Board 3

Sommer, Judah C., commissioner, International Cultural and Trade Center [ICTC], accompanied by Kenneth R. Sparks, president, ICTC, and Michael Newell, executive vice president, ICTC 3

PREPARED STATEMENT OF MEMBER OF CONGRESS

Hammerschmidt, Hon. John Paul, a Representative in Congress from Arkansas 2

PREPARED STATEMENTS OF WITNESSES

Hauser, Richard A 14

Sommer, Judah, C 13

SUBMISSIONS FOR THE RECORD

Hauser, Richard, A., letter supplementing testimony 15

Preliminary feasibility analysis prepared for U.S. International Cultural and Trade Commission, April 21, 1989, prepared by GA/Partners 17

Preliminary organizational review of the U.S. International Cultural and Trade Center, prepared by KPMG Peat Marwick Main & Co., Washington, DC, March 1, 1989 23

SUBJECT: CONSTRUCTION MANAGEMENT AS A MEANS TO REDUCE OR CONTROL FEDERAL CONSTRUCTION AND RENOVATION COSTS... 45

TESTIMONY

Piser, Donald H., chairman, president, and chief executive officer, Morse Diesel 45

Stewart, James B., Director, Design and Construction, Office of Real Property Development, General Services Administration 45

PREPARED STATEMENTS OF WITNESSES

Piser, Donald H 60

Stewart, James B 63

MARCH 8, 1990

INTERNATIONAL CULTURAL AND TRADE CENTER

TESTIMONY

Page
Austin, Richard G., Acting Administrator, U.S. General Services Administration 66
Hauser, Richard A., chairman, Pennsylvania Avenue Development Corp. accompanied by Jay Brodie, executive director, PADC 66
Percy, Charles H., Chairman, International Cultural and Trade Center Commission, accompanied by Kenneth R. Sparks, President, ICTC 66
Roth, Richard L., Director, Office of Administration, U.S. Information Agency, on behalf of Bruce S. Gelb, Director 66

PREPARED STATEMENT OF MEMBER OF CONGRESS

Hammerschmidt, Hon. John Paul, a Representative in Congress from Arkansas 66

PREPARED STATEMENTS OF WITNESSES

Austin, Richard G 180
Hauser, Richard A 124
Percy, Hon. Charles H 184
Roth, Richard L 193

SUBMISSION FOR THE RECORD

Hauser, Richard A., President Pennsylvania Avenue Development Corporation, letter supplementing testimony 114
Percy, Hon. Charles H., Chairman, International Cultural and Trade Center Commission, April 18, 1990 letter to Mr. Bosco 190

INTERNATIONAL CULTURAL AND TRADE CENTER [ICTC] AMENDMENTS

TUESDAY, NOVEMBER 14, 1989

House of Representatives,
Subcommittee on Public Buildings and Grounds,
Committee on Public Works and Transportation,
Washington, DC.

The Subcommittee met, pursuant to notice, at 9:41 a.m., in Room 2167, Rayburn House Office Building, Hon. Douglas H. Bosco, Chairman of the Subcommittee, presiding.

Mr. Bosco. Good morning, ladies and gentlemen. We will call the Public Buildings and Grounds Subcommittee to order.

The Subcommittee today will be holding a hearing on the International Cultural and Trade Center amendments and on Construction Management as a means to reduce or control Federal construction and renovation costs.

I want to welcome all the witnesses. At this time, I recognize our ranking minority member, Mr. Petri, for his remarks.

Mr. Petri. Thank you very much, Mr. Chairman.

I should, first of all, like to welcome to the hearing audience today the representatives of various political parties in Hungary, who are visiting the United States as part of a delegation to explore how we do our democratic business as part of their preparation for the first completely free elections that Hungary will have had for some time. We welcome them all very much.

I would also like to join you in welcoming our witnesses who will testify before the Subcommittee this morning. Some are familiar faces who have testified in the past. I would like to especially convey warm words of welcome to Jud Sommer, who is testifying for the first time before the Subcommittee on behalf of the International Cultural and Trade Center Commission's proposed amendments to the Federal Triangle Development Act. Jud is familiar with the Hill, having served in various capacities in the Senate, including serving as an aide to former Senator Jacob Javits. He is an active member of the community and is involved in many worthy organizations. I welcome you especially to the Subcommittee this morning.

Before marking up various items considered by the Subcommittee at our last hearing, we will also hear from GSA and the construction management firm of MorseDiesel on the use of private construction managers as a means of reducing costs on Federal construction projects. Testimony received this morning will be helpful in determining if construction management is an appropriate and effective tool which the Federal government can utilize.

I would also like to ask unanimous consent, that remarks of the ranking Republican John Paul Hammerschmidt be included in the record.

Mr. Bosco. Without objection.

Mr. PETRI. Thank you.

[Mr. Hammerschmidt's prepared statement follows:]

STATEMENT OF HON. JOHN PAUL HAMMERSCHMIDT

Mr. Chairman, the first item the subcommittee will consider this morning is proposed legislation amending the Federal Triangle Development Act, which was passed by Congress in 1987. These amendments primarily concern the International Cultural and Trade Center Commission which is responsible for the operation of the trade center to be located in the new Federal building. Among other provisions, these amendments would revise staffing, funding, and the daily operation of the Commission. The proposed legislation deserves our careful consideration.

The subcommittee will also explore the role of construction management in Federal construction projects. It is my understanding that GSA does hire private construction management firms as consultants on Federal projects. It has been proposed that costs may be reduced if the use and responsibilities of a private construction manager were expanded. This morning we will hear more about this issue from GSA and a construction management firm which has worked with GSA on several projects.

We will then proceed to a markup on various items heard by the subcommittee last week.

I look forward to an interesting and productive meeting this morning. Thank you, Mr. Chairman.

Mr. Bosco. Mr. Lewis, do you have any remarks?

Mr. LEWIS. Thank you very much, Mr. Chairman. I, also, would like to take the opportunity to welcome the witnesses here, and I look forward to this hearing.

I don't have a statement, but I will have some questions concerning the Pennsylvania Avenue Development Corporation's handling of the selection of a developer for the International Cultural and Trade Center.

Mr. Bosco. Thank you. I would, also, like to welcome our guests from Hungary. I'm very pleased that they chose the Public Buildings and Grounds Subcommittee to be one of their examples of how American democracy works. I hope that we prove ourselves worthy of your time and attention. Welcome to the United States.

At this time, we will call the witnesses for the International Cultural and Trade Center discussion. If you would please come forward.

Ken Sparks, since you are a familiar face here and one who has worked with our Subcommittee, why don't you tell us who you think should go first.

Mr. SPARKS. Mr. Chairman, we will defer to your judgment on that, but I would assume that, since Mr. Sommer is listed first on the program, maybe Mr. Sommer would go first and then Chairman Hauser from PADC, second.

Mr. Bosco. Why don't we do that, then.

Mr. Judah Sommer, it is very good to have you with us and thank you for being here. I know you are a Commissioner of the ICTC, and we are looking forward to hearing your remarks.

TESTIMONY OF A PANEL CONSISTING OF JUDAH C. SOMMER, COMMISSIONER, INTERNATIONAL CULTURAL AND TRADE CENTER [ICTC], ACCOMPANIED BY KENNETH R. SPARKS, PRESIDENT, ICTC, AND MICHAEL NEWELL, EXECUTIVE VICE PRESIDENT, ICTC; AND RICHARD A. HAUSER, CHAIRMAN, PENNSYLVANIA AVENUE DEVELOPMENT CORP. [PADC] BOARD, ACCOMPANIED BY JAY BRODIE, EXECUTIVE DIRECTOR, PADC BOARD

Mr. SOMMER. Thank you, Mr. Chairman, and thank you Congressman Petri for your kind comments.

Mr. Chairman, Members of the Subcommittee, I am here in the absence of our chairman, Senator Percy, who is traveling out of the country. I have been the designated hitter for this hearing.

I am here to provide you with a brief update on the ICTC and seek your help in obtaining early consideration of a few technical amendments to our enabling legislation.

Since we came before you last, the PADC, the GSA, and the ICTC's consultation have selected the Delta Partnership to develop the Center. We believe it is a strong development team. We are excited by the design and impressed with the team construction, management, and development experience.

I will, however, defer further comment on the selection process and precisely where that stands to Chairman Hauser.

GSA, PADC and ICTC continue to work cooperatively to make this project a success. PADC ran a most comprehensive competition fairly and successfully, and all of us are pleased with the results. The Acting GSA Administrator, Dick Austin, has provided us with the full support of GSA, and we have established a mechanism to continue to work together to build a facility and to operate it in the years after the building is open.

The amendments before you today are very important to both the ICTC and PADC. We need the amendments quickly for a couple of reasons. First, subcontractors need to be exempted from local taxes. This will expedite the signing of the development agreement with PADC and will allow the project to proceed on schedule. Secondly, the ICTC needs appropriations until the building opens and a cash flow is developed. OMB will forward a request to the Congress once these amendments are enacted, is our understanding.

This is a critical time for the ICTC. The developer selection is complete; the development agreement is being negotiated; and the Delta team will begin work quickly with schematic design of the complex.

The ICTC has made preliminary decisions regarding its programs, but we need to complete the conceptual program by January. We then need to develop the detailed program so the architects and developers can coherently and efficiently incorporate it into the design.

In addition to the aforementioned local tax provision required by the PADC and GSA, the following amendments in this package are listed as follows, and if you want expansion on them, we can do that subsequently.

One. Adding the Secretaries of Treasury and Labor to the Commission;

Two. Increasing the quorum number commensurate with the increased number of Commissioners;

Three. Clarifying the 6-year term of the presidential term of the presidentially-appointed Commissioners;

Four. Allowing the appropriations process to set the ICTC budget and staffing requirements;

Five. Providing for appropriate contracting procedures; and

Six. Allowing the ICTC to operate as a not-for-profit corporation, if it chooses, instead of making myriad business and artistic decisions within a governmental organization.

These amendments have been fully discussed within the Administration and staff on the Hill and are supported by OMB. We have worked with PADC, GSA and OMB to present to this Committee a package that will allow the Center to operate in the most effective and efficient manner.

Mr. Chairman, for the reasons highlighted, we need to have early consideration of these amendments. I would be delighted to answer any questions that you or any of the members have.

Thank you.

Mr. Bosco. Thank you very much, Mr. Sommer.

Our next witness is Mr. Richard Hauser, Chairman of the Pennsylvania Avenue Development Corporation Board.

Mr. HAUSER. Thank you, Mr. Chairman. Good morning to you and good morning to the Members of the Subcommittee. We appreciate the opportunity to participate at this hearing.

I am accompanied this morning by Jay Brodie, who is Executive Director of the PADC and who is a familiar face, I'm sure, to all of you.

The technical amendments that you have before you would clarify the intent of the original legislation and adjust some of the terminology to address actual conditions encountered by the ICTC in carrying out its responsibilities. On behalf of the PADC, I am pleased to support those amendments. I will comment in detail only on Section 2, which clarifies Section 5(f) of the original legislation concerning the issue of taxation of the project.

The language of the original legislation suggests that the project was intended to be tax exempt for all purposes. The amendments set out with more specificity the types of taxes concerned and the circumstances under which there shall be an exemption. The basic concept is that the developer should not be subject to taxes under circumstances where the GSA would not have to pay taxes in the procurement of construction materials, services, or the lease of personal property in connection with the lease of the building. Having the developer pay these taxes would just subject the government to an additional project cost from which it would otherwise be exempt. To the extent, however, that GSA would not be exempt, then the developer also would not be exempt.

I am also pleased to report to you on the progress with this project.

On October 18th, after 4½ months of truly intensive review and evaluation of proposals which had been submitted to us on June 1st by the seven development teams, the PADC Board, after consulting with GSA and ICTC, selected the Delta Partnership's proposal. The Delta Partnership consists of the Zeckendorf Company and the Silverstein Properties, Inc., in New York City; the Hapsmith Company, and Mendelsohn Associates of Washington, D.C., with Pei, Cobb, Freed & Partners as design architects, and Ellerbe Becket, Inc., who is providing additional architectural and engineering services. The Perini Corporation is the construction manager of the Delta Partnership team.

The PADC Board decided at that same meeting to separate the financing from the development competition, upon the recommendations of our financial advisors, Kidder-Peabody. This was done in order to provide us with a structure that we thought would give us the lowest possible cost to the government and, hence, to the U.S. taxpayer.

Following the selection of the development team, PADC is continuing in partnership with GSA and ICTC to present the design concept to the National Capital Planning Commission, the Commission of Fine Arts, the D.C. Historic Preservation Office and to the Advisory Council for Historic Preservation; meeting with the development team to finalize a variety of legal agreements; reviewing submissions and making the selection of the corporation's construction consultant team to assist the government in managing the project; executing a Memorandum of Understanding between PADC, GSA and ICTC delineating the roles and responsibilities of each party throughout the design-and-construction process; and pursuing the financing process as approved by the board.

Critical to our continued advancement is the final resolution of the Federal office tenancy question, including the specific design and construction needs of the occupants to be submitted by GSA to PADC, so that they can be incorporated into the design-and-cost structure of the project at the earliest possible time. This has not yet occurred.

We are appreciative of your's and the Committee's support, which has inspired us from the inception of this project and enabled us to reach the point that we are now at.

We would be pleased to answer any questions you may have.

Mr. Bosco. Thank you very much.

Mr. Sparks, do you have comments you would like to make, or should we get into the questions?

Mr. **Sparks**. No, sir, Mr. Chairman. I would go ahead with the questions.

Mr. Bosco. I will recognize Mr. Lewis then to begin the questioning.

Mr. **Lewis**. Thank you very much, Mr. Chairman.

Mr. Sparks, Mr. Hauser, are you telling us that the Delta Partnership was the most qualified development organization that submitted a bid?

Mr. **Hauser**. Before directly responding to your question, Mr. Lewis, by way of background, I have to mention just a bit about the selection process.

Throughout the process and in the prospectus that was made available for all prospective development teams, eight criteria were set upon which the various submissions would be judged, and that included the development program, urban design architecture and historic preservation, schedule, project costs, affirmative action, development team experience, creditability and resources, project management, and financial experience.

Those were the factors that were paramount in the consideration of the board in assessing and evaluating all the submissions. It was based upon those factors that the Delta Partnership was selected. Each team varied somewhat; one would be a bit superior to others in one of the categories, but it was on the overall proposal that the Delta was selected.

Mr. LEWIS. Mr. Hauser, it is my understanding that the Delta Partnership submitted the highest-cost bid, scored the lowest with the city historic preservation organization, submitted no affirmative action. It doesn't even have a history of minority participation.

I would like to hear your response. Maybe I'm wrong; perhaps I got the wrong information.

Mr. HAUSER. I don't think that's quite accurate. I would be pleased to submit additional information, but my recollection is that their affirmative-action proposal was better than average. When we had the oral presentations by developers, for example, affirmative action was inquired into at great length.

Mr. LEWIS. Did they submit a plan, a proposal?

Mr. HAUSER. Yes, sir, they did. It was evaluated as being better than average. We were satisfied that that was more than satisfactory on that one element.

Mr. LEWIS. According to the chart I have before me, they didn't submit an affirmative-action plan.

Mr. HAUSER. It was one of the essential elements of each proposal that there be a submission on the plan. It was inquired into at great length.

Mr. LEWIS. Did any of the other organizations submit a better plan; have a better history of minority participation?

Mr. HAUSER. Did others present a better plan?

Mr. LEWIS. Yes.

Mr. HAUSER. Again, I don't have some of those materials before me but, as part of the evaluation, as I say, each proposal was assessed on the basis of the criteria that I mentioned at the outset of my response to your question.

It was my recollection that there were some teams whose affirmative-action program may have been superior to that of the Delta Partnership. On the other hand, Delta Partnership was above average, and we are satisfied that it will be a real model.

Mr. LEWIS. Let me come back another way. Is there a history of minority participation on the part of this organization?

Mr. HAUSER. Maybe I should defer to Mr. Brodie on this, but the Delta Partnership is a group of teams that came together for this particular proposal.

Mr. LEWIS. So you're telling us it's not a history. It's not a track record. They came together to get this particular contract.

Mr. HAUSER. I'm not saying that. I'm saying that each of the team members has history, and together they have put forth a plan which will be monitored. I should add that, at the last board meeting, we adopted a resolution which was actually, I think, recommended or suggested by the Mayor of the District of Columbia, to make sure that we had in place a mechanism to assure that the various goals and plans would be achieved. That was unanimously adopted by the board.

Mr. **Lewis**. Have you had a contact or any reaction from the minority contractors and developers in the city?

Mr. **Hauser**. Have we had any contact?

Mr. **Lewis**. Any reaction.

Mr. **Hauser**. I believe that Mr. Brodie has been in contact. I would be pleased to defer to him on that question.

Mr. **Brodie**. If I may add to Mr. Hauser's comment, Mr. Congressman, there was an affirmative-action plan submitted in detail by each of the eight teams that competed. They submitted against a set of goals which PADC adopted some time ago and, as a federal corporation, those goals echo the goals set forth for the federal government in every aspect of affirmative action from professional and technical involvement through construction and employment and subcontracting and services and the like.

Those goals were passed some years ago in the Federal Register. We would be glad to supply a copy of those if that would be helpful, so it's clear against which goals the teams were proposing. We then evaluated each of the affirmative-action proposals and asked for a great deal of backup information, and I'll tell you why—it follows up Mr. Hauser's comment—that, in many instances, teams were formed to compete for a specific project. That was true of Delta in this case. It was also true of several of the other teams that competed.

So their track record is the track record of each of the components of that team. When they work independently or in a team like Delta where there were four or five components, two or three of them may have worked together on a single project.

So we literally have inches of contracts that the members of the Delta team have entered into in the course of their history as developers and architects. We would be glad to supply those likewise. We reviewed each of those to make sure that they were substantial contracts, that there were no fronts. You are familiar with that problem in the past——

Mr. **Lewis**. Yes.

Mr. **Brodie** [continuing]. And that they were truly minority and women business-owned teams.

As to what comments we have had subsequent to that, I have met on one occasion and expect to have continual meetings with Mr. Ed Nelson and Mr. Clara Garcia of the D.C. Contractors Association, who expressed some of the similar questions that you touched on here today and somehow felt that all of the decisions had been made in terms of suppliers and subcontractors. I assured them that that was not the case; that we were in the process of negotiating with the Delta Partnership all the legal agreements and moving on with the project as Mr. Hauser has described, but that the decisions of suppliers, contractors, second- and third-tier folks, as well as additional people on the team itself were completely open.

We made a special point, Mr. Lewis, in the discussion of the selection process to encourage Delta to contact those people of the nonwinning teams that represented the minority communities to see if they were interested in coming on board, if there was an opportunity to do that. Those conversations are likewise underway.

Mr. LEWIS. Did you get a green light from the Preservation League of the District that this is a good proposal, that this bid is the best one, that it's in harmony with historic preservation?

Mr. BRODIE. Mr. Hauser has asked me to comment further on that. First, on the relationship with the District and the D.C. Historic Preservation Review Board, which is the body that typically reviews these designs. We went to that board as we did to the NCPC, as we did to the Commission on Fine Arts, as we did to the Advisory Council on Historic Preservation, in writing the guidelines for the proposal before they went out.

There were areas in which we agreed—most of the areas—in terms of height and bulk and parking ratio. Those comments were incorporated at the time. We have recently or, actually, right now, are in the process of returning to each of those groups. We have been to NCPC about a week ago. We visited with the D.C. Historic Preservation Review Board last Thursday. We will be meeting with Fine Arts tomorrow morning and, tomorrow afternoon, with the staff of the Advisory Council.

As a result of each of these meetings, we are going to be getting comments back. They were not asked, if I understand your question correctly, to comment as part of the selection process; that is, one design against another. They have never been built in, in that way.

The Federal Triangle Development Act gave PADC the responsibility, in consultation with GSA and ICTC, to make that determination, but will be getting their comments not once but at least three times throughout the review of the design; first, at the conceptual level, then at the schematic-design level and, lastly, at the design-development level. So we will be getting plenty of input from each of those groups.

Mr. LEWIS. Thank you. Thank you, Mr. Chairman.

Mr. BOSCO. Thank you, Mr. Lewis.

Mr. Lightfoot, do you have a question?

Mr. LIGHTFOOT. Thank you, Mr. Chairman.

Mr. Sommer, the proposed legislation will lift the current limit of ten direct hire and five detailed staff. How many employees does this commission currently have and what do you think your needs will be for staff in the future?

Mr. SOMMER. Presently, Congressman, we have eight employees under that ten limit cap, but we see our needs just expanding. I really ought to defer to Mr. Sparks on a more precise answer, since he's planned this.

Mr. LIGHTFOOT. Sure.

Mr. BOSCO. I guess, the buck stops with you, Mr. Sparks.

Mr. SPARKS. We have eight staff members on board now as well as some people who are on loan to us. For example, I am on loan to the commission from the Federal City Council. We have an employee on loan to us from the District of Columbia government, and we have some consulting help, as well, in specialized areas.

What we anticipate is that we will need to expand rather quickly to a staff of approximately 25 over the next year to year and a half. We have a preliminary study done by Peat, Marwick & Mitchell that indicates that, by the time the Center opens in late 1994, and we are really ready to begin operations, they would expect we would need a staff between 100 and 125 to manage the operations at the Center.

Keep in mind that the Center has several theaters, a lot of exhibit space. It has a retail operation of approximately 150,000 square feet, conference facilities, educational programs, a one-stop trade information center as a part of the operation. It will be handling, Peat, Marwick & Mitchell estimates, a budget of approximately $55 million a year from operations within the Center, and there will just need to be a staff to handle a business of that dimension.

Mr. LIGHTFOOT. If I understand you correctly, you say 25 in a year, to a year-and-a-half. After that, we're looking at 100 to 125. Is that correct?

Mr. SPARKS. It will be growing gradually until the staff actually operating the Center in late 1994 could be between 100 and 125. As I say, this is a preliminary estimate from Peat, Marwick & Mitchell, which was brought in to review the program and make suggestions to us. This is not adopted at this point or anything. These are preliminary estimates from a consulting firm that we asked to study the management needs of the Center.

Mr. LIGHTFOOT. You are looking at $55 million a year in budgetary requirements. The requirement is that the Center be self-sustaining with those expenses being met through the revenues and so on. With this kind of a figure do you expect that we can be self-sustaining within the required time frame, which I think is just two years?

Mr. SPARKS. Yes, it's two years from the time the Center opens—it's my understanding of the legislation—and, yes, again, preliminarily, looking seven years into the future, we have reason to believe that we can be self-sustaining by the end of the second year of operations.

Mr. LIGHTFOOT. Then there has been talk about a not-for-profit corporation operating the Center. What are the merits of a not-for-profit corporation in this kind of a situation and what effect do you think that will have on staffing, the money required—really, the whole ball of wax?

Mr. SPARKS. I'm not sure that it has a particular effect on staffing or necessarily on the money required at all. The arguments for it, Congressmen, are essentially both business and artistic. From the standpoint of operating the Center and operating a $55 million a year business that is as varied as what we are talking about trying to operate here, the feeling is that there will be just many, many business judgments that need to be made on a split-second basis to operate the artistic programs in there, to operate the retail programs in that Center, and it would be better to be set up to make those kinds of decision in a business-like atmosphere rather than in a governmental structure; that we should be presumably more efficient operating in that fashion.

The artistic argument is simply that there is reason to believe that there probably should be some separation between the government and the day-to-day operations of the Center. The kind of example we would give is, that, if we are operating an artistic program and should happen, for example, to have a speaker come into the Center and give a speech which offends this country or offends that country, it would be just much better to be able to place the blame on the nonprofit corporation rather than to have the United States government have to take the heat for the programming judgment that was made.

Those are the two principal arguments for the nonprofit. I want to emphasize that what we have in mind is the commission staying very much in place, with a relatively small staff overseeing the policy questions with respect to the Center and overseeing any Federal dollars that are in any way channeled into the operation of the Center and the accounting for the operations of the Center officially to the Congress. But that we just think on a day-to-day basis it would be better to have in essence a nonprofit structure set up to run the Center in a more business-like fashion.

Mr. **Lightfoot**. I would certainly agree with the business approach rather than the government approach. If I understand it correctly, the proposed legislation we're looking at will waive some of the competitive contracting procedures. Could you respond as to why it's necessary and what types of contracts would be bid on a competitive basis?

Mr. **Sparks**. We would expect to have a procedure that would by and large result in competitive bidding set up for most of the contracts within the Center. What we are concerned about is competitive contracting in some of the artistic areas where we are trying to recruit talent to come in and perform in the theaters where we are recruiting on exhibits, to come into the exhibit area, and where we think those decisions are probably best left to people who really understand theater to make artistic judgments and to have people come in on the basis of reputation and presumed skills rather than in an open-competitive situation.

We don't anticipate a lot of noncompetitive contracts at all. It's just that, because we anticipate some, we are asking for exemption from the governmental requirements, again, and we would anticipate that we would set up our own procedures which would meet every test of fairness and competitiveness in the vast majority of the contracts that we would enter into.

Mr. **Lightfoot**. Would it be fair then to say that you are anticipating there may be some areas that you need a little bit of flexibility in and, by being able to do this, you can accomplish your purpose with the least amount of hassle?

Mr. **Sparks**. Yes, sir.

Mr. **Lightfoot**. Thank you very much. Thank you, Mr. Chairman.

Mr. **Bosco**. Mr. Cox.

Mr. **Cox**. Thank you, Mr. Chairman.

Mr. Sparks, I would like to just follow up on Congressman Lightfoot's question because the analysis of the proposed amendments that we have been given suggests a different reason for waiver of competitive bidding. It suggests that the reason is foreign-relation needs. I will read what I have here.

> The Commission needs to have the flexibility necessary in a commercial environment to enter into agreements with other entities containing terms and conditions appropriately responsive to foreign-relation needs.

That seems different than artists.

Mr. **Sparks**. Yes, Congressman. I should have mentioned this. That's another component of this thing, that the theater component, the exhibit component, and the artistic thing is one side. The other side has to do with contracts with foreign governments, where we will be going out and leasing space to foreign governments, and there may be a number of considerations other than strictly competitiveness that would go into which governments come into the Center, for example, including foreign-relation considerations.

Mr. Cox. I wonder if you could elaborate on that. What would those be?

Mr. **Sparks**. We will be leasing space from GSA and then subleasing that space to foreign governments coming in. Judgments are going to have to be made with respect to how much space these governments can have, which governments will come in. Will we use a first-come/first-serve basis, or will we take account of such things as the amount of trade that the country does with us, for example, as to whether we give them more or less space in the center? I don't know if we have a specific description.

Congressman, this is Michael Newell, who is our Executive Vice President.

Mr. Cox. Please go ahead.

Mr. **Newell**. Thank you, Congressman. One of the issues that we looked at with the contracting with foreign governments is that, if you take a GSA lease and you pass the lease provisions down through to those governments, they don't work particularly well, especially when you're dealing with diplomatic and sovereign immunities. That was shown at the INTELSAT when they were trying lease space to GSA and others.

What this anticipates doing is taking some of the leases and being able to separate out the foreign policy needs of the United States in those lease provisions and what is considered a property disposal by GSA, which is taking our lease with GSA and passing those provisions down to foreign governments. So what that does is allows us to be flexible under issues of diplomatic reciprocity to structure those deals more in accordance with our foreign policy needs.

Mr. Cox. If I understand you correctly then, the issue is not so much which foreign government is involved but rather the fact that a foreign government is involved at all because they are a different party with whom to contract than would be a domestic tenant.

Mr. **Newell**. That's correct. It's both issues, Congressman, but primarily the other.

Mr. Cox. To the extent that it matters which country is involved, what is the mechanism for getting the foreign-policy input from USTR or State? How does this happen?

Mr. **Sparks**. Basically, we have the State Department, the Trade Representative, the Commerce Department, and the Agriculture Department, and soon we hope the Treasury, and the Labor Department on the board, along with USIA.

Mr. Cox. So the board itself would be involved in making those decisions?

Mr. **Sparks**. The board itself would be involved in making those decisions, number one; and, number two, we do have at the State Department the Office of Foreign Missions with which we would consult.

Part of the understanding with respect to the purpose of this Center is that we should use this as a way to obtain reciprocal advantages with the countries that we allow to come in and use the Center.

Mr. Cox. Thank you. Just a quick question for Mr. Hauser. Would the project continue on schedule if legislation regarding local taxes were not enacted until early next year?

Mr. **Hauser**. We don't believe that it would delay the project, but it is in the interest of the project to have that clarifying language come sooner than later, though. Anything that we can do to provide greater assurances particularly to the marketplace as we begin our financing stage will be of benefit to us.

Mr. Cox. Thank you.

Mr. Bosco. Mr. Hauser, have you established what you believe the total project cost will be at this point?

Mr. **Hauser**. It hasn't been determined finally in part because of the still outstanding question of tenancy which will affect the cost overall. We have estimated the project at this stage to be in the neighborhood of $665 million, which includes approximately $100 million for financing.

Mr. Bosco. What do you view as the remaining obstacles on the tenancy question? I thought that the last time we visited this issue we had almost resolved that. Have we gone backwards or are we still making progress?

Mr. **Hauser**. There is a sense of deja vu about this hearing. [Laughter.]

Mr. Bosco. I was trying to be understated in the whole thing.

Mr. **Hauser**. I think there has been progress. There has been a lot of sincere negotiations that have taken place between GSA and Justice and other Federal agencies. The problem, I think, right now, is that it is a very popular building, and there is a request for more space than actually exists.

Maybe Mr. Sparks can add to this, but we're hopeful that it will be resolved. The biggest issue is, to the extent that USIA becomes the prime tenant and brings with it additional programmatic changes that will affect cost, that's our primary concern.

Mr. **Sparks**. Jay, correct me if I'm wrong, but isn't the tenancy issue at this point, from the Committee's point of view, largely a matter that, when the development plan was approved by the Congress by resolution of the two Committees, specifically that resolution said that the housing plan was not approved and the parties were directed to come back to the Committee and give them a satisfactory housing plan?

My understanding of the issue from the Committee's standpoint at this point is whether, in fact, we need a resolution from the two Committees saying that the housing plan at this point is satisfactory to them.

Mr. **Brodie**. Just a sentence or two of clarification. Essentially, I agree with Mr. Sparks' recollection. When the Committees acted, which was September 1988, they were approving the development proposal that PADC had sent up with the reservation on the housing plan.

What we would need is, first, a finalization of the GSA Administrator's housing plan with USIA and other areas apportioned properly that the Committee would concur in, and then we need that housing plan translated into the kind of further detail that Mr. Hauser alluded to; then we would push on.

Mr. Bosco. With all due respect, I think we are all well aware of what we need. My question was, how close are you to getting that? The last time we had a hearing it looked to me like you could within a couple of weeks. We are well past a couple of weeks, when will you have this resolved?

Mr. **Brodie**. We are waiting for this, Mr. Chairman, from GSA. We have been told by them that it would be mid-January that we could be assured of having the detail we need.

Mr. Bosco. So, at that point then, you will be able to firm up what you believe the building will cost; is that right?

Mr. **Brodie**. I would say so, yes.

Mr. Bosco. What was your high bid and then the second highest bid on this proposal? Do you have that with you?

Mr. **Brodie**. Let me just add a word as to what the figures mean, if I may, for clarification. Each developer was asked to submit their own budget for their own design, and they did that. We then, PADC, employed completely independent cost estimators, so we simply weren't relying on the developer's cost estimate, and did our own detailed takeoff of some 31 items. We will supply the figures to you, by letter.

Mr. Bosco. Thank you. Are there any other questions?

[No response.]

Mr. Bosco. I want to thank you all, and we will try to deal expeditiously with this legislation once we've had a little more time to review it. Thank you.

Some people have asked what this curtain is on the wall behind me. We're not having a puppet show or a confessional, or anything like that, but Chairman Anderson's portrait is going to be unveiled later on.

Mr. **Hammerschmidt**. We're having a hanging. [Laughter.]

Mr. Bosco. Thank you very much.

Mr. **Sommer**. Thank you, Mr. Chairman.

Mr. **Sparks**. Thank you, Mr. Chairman.

Mr. **Hauser**. Thank you, Mr. Chairman.

Mr. **Brodie**. Thank you, Mr. Chairman.

[Mr. Sommer's and Mr. Hauser's prepared statements follow:]

TESTIMONY OF JUDAH C. SOMMER

Mr. Chairman, Members of the Subcommittee:

I am pleased to be here this morning to provide you with a brief update on the International Cultural and Trade Center and seek your help in obtaining early consideration of technical amendments to our enabling legislation.

Since we came before you last, the PADC, with GSA and ICTC's consultation, selected the Delta Partnership to develop the Center. We believe it is a strong development team. We are excited by the design and impressed with the team construction, management and development experience. I will defer further comment on the selection to Chairman Hauser.

GSA, PADC and ICTC continue to work cooperatively to make this project a success. PADC ran a most comprehensive competition fairly and successfully, and all of us are pleased with the results. The Acting GSA Administrator, Dick Austin, has provided us with the full support of GSA, and we have an established mechanism to continue to work together to build the facility and to operate it in the years after the building is open.

The amendments before you today are very important to both the ICTC and the PADC. We need the amendments quickly for a couple of reasons. First, subcontractors need to be exempted from local taxes. This will expedite the signing of the Development Agreement with PADC and will allow the project to proceed on schedule. Secondly, the ICTC needs appropriations until the building opens. The Office of Management and Budget will forward a request to the Congress once these amendments are enacted.

This is a critical time for the ICTC. The developer selection is complete. The development agreement is being negotiated, and the Delta Team will begin work quickly with schematic design of the complex. The ICTC has preliminary decisions regarding its programs, but we need to complete the conceptual program by January. We then need to develop the detailed program so the architects and developers can coherently and efficiently incorporate it into the design.

In addition to the local tax provision required by PADC and GSA, the following amendments are in this package:

1. Adding the Secretaries of Treasury and Labor to the Commission;
2. Increasing the quorum number commensurate with the increased number of Commissioners;
3. Clarifying the six-year term of the Presidentially appointed Commissioners;
4. Allowing the appropriations process to set the ICTC budget and staffing requirements;
5. Providing for appropriate contracting procedures; and
6. Allowing the ICTC to operate as a not-for-profit corporation if it chooses instead of making myriad business and artistic decisions within a governmental organization.

These amendments have been fully discussed within the administration, and are supported by OMB. We have worked with PADC, GSA and OMB to present to this Committee a package that will allow the Center to operate in the most effective and efficient manner.

Mr. Chairman, for the reasons highlighted, we need to have early consideration of these amendments. I would be delighted to answer any questions that you or any members might have.

STATEMENT OF RICHARD A. HAUSER

Good morning Mr. Chairman and Members of the Subcommittee.

Thank you for inviting me to comment on the proposed technical amendments to the Federal Triangle Development Act. I am accompanied by PADC Executive Director Jay Brodie.

The technical amendments that you have before you would clarify the intent of the original legislation, and adjust some terminology to address actual conditions encountered by the ICTC in carrying-out its responsibilities. I am pleased to support the amendments. I will comment in detail only on Section 2, which clarifies Section 5(f) of the original legislation concerning the issue of taxation of the project.

The language of the original legislation suggests that the project was intended to be tax-exempt for all purposes. The amendments set out with more specificity the types of taxes concerned and the circumstances under which there shall be an exemption. The basic concept is that the Developer should not be subject to taxes under circumstances where the GSA would not have to pay taxes in the procurement of construction materials, services, or the lease of personal property in connection with the lease of the building. Having the Developer pay these taxes would just subject the government to an additional project cost from which it would otherwise be exempt. To the extent, however, that GSA would not be exempt, then the Developer also would not be exempt.

I am also delighted to report to you on the excellent progress we are making with the project.

On October 18th, after four-and-a-half months of intensive review and evaluation of proposals submitted to us on June 1st by seven development teams, the PADC Board, after consulting with GSA and ICTC, selected with enthusiasm The Delta Partnership's proposal. The Delta Partnership consists of The Zeckendorf Co. and

Silverstein Properties, Inc. (of New York City), The Hapsmith Company (of Beverly Hills, California) and Mendelsohn Associates (of Washington, D.C.) with Pei Cobb Freed & Partners (of New York City) as design architects and Ellerbe Becket, Inc. (of Washington, D.C.) providing additional architectural and engineering services; the Perini Corporation (of Framingham, MA) is the construction manager. The PADC Board decided at that same meeting to separate the financing from the development competition, upon the recommendations of our Financial Advisors, Kidder-Peabody, in order to structure a process on financing alone, therefore providing the lowest-possible-cost to the Government—and to the U.S. Taxpayer.

Following the Development Team selection, PADC—in continuing partnership with GSA and ICTC—is—

Presenting the design concept to the National Capital Planning Commission (NCPC), the Commission of Fine Arts, the D.C. Historic Preservation Office and to the Advisory Council for Historic Preservation;

Meeting with the development team to finalize a variety of legal agreements;

Reviewing submissions and making the selection of the Corporation's Construction Consultant team, to assist the Government in managing this project;

Executing a Memorandum of Understanding between PADC, GSA and ICTC delineating the roles and responsibilities of each party throughout the design-and-construction process; and

Pursuing the financing process as approved by the Board.

Critical to our continued advancement is the final resolution of the federal office tenancy question, including the specific design and construction needs of the occupants, to be submitted by GSA to PADC so that it can be incorporated into the design-and-cost structure of the project at the earliest possible time; this has not yet occurred.

We are appreciative of your support, which has inspired us from the inception of this project and enabled us to progress as we have.

We would be pleased to respond to any questions.

[A letter supplementing Mr. Hauser's prepared statement follows:]

PENNSYLVANIA AVENUE DEVELOPMENT CORPORATION,
1331 PENNSYLVANIA AVENUE, NW.,
Washington, DC, January 3, 1990.

Hon. DOUGLAS H. BOSCO,
Chairman, Committee on Public Works and Transportation, Public Buildings and Grounds Subcommittee, U.S. House of Representatives, Rayburn House Office Building, Washington, DC.

Re: The Federal Triangle Development Site (FOB/ICTC)

DEAR MR. BOSCO: This letter will supplement my testimony at the November 14th, 1989 hearing on the Federal Triangle Development site by providing additional information on project costs. During this intervening period, PADC, GSA and ICTC staff have been negotiating with representatives of the Delta Partnership (the developer selected on October 18th, 1989 by the PADC Board) to finalize the Development Agreement (which will include a Project Budget). It is our expectation that this process will be completed by February 13, 1990. In addition, the staff, at the Board's direction and with the assistance of our financial advisor, Kidder, Peabody & Co., has been developing a Request for Proposal (RFP), to select an underwriting team to provide the most cost effective financing for the project. The RFP was released on December 27, 1989 and proposals are to be submitted no later than January 16, 1990.

By way of background, each development team in the competition was required to submit a detailed cost estimate for its proposal and, in order to check the developer's costs, PADC prepared a cost estimate of each proposal employing independent cost estimators.

PADC's estimates of the total cost to design, finance and construct the Project, based on the proposals presented by the development teams, ranged from $638,780,000 to $715,660,000 and our estimate of the office rental per occupiable square feet ranged from $28.14 to $31.82. PADC's estimate of Delta's proposal was $665,095,000 and their office rental per occupiable square feet was therefore $29.61.

Contrasted with past estimates of project costs, which could only be based on generalized hypothetical designs, these costs now reflect the following:

Approximately $56.2 million for the fully-developed ICTC program, including four (4) theatres (a 1500 seat legitimate theatre, a film theatre seating 500, a film theatre seating 300 and a "black box" theatre seating 300), 120,000 square feet of retail/food service space, 130,000 square feet of exhibit space (including a large screen theatre, the World Link exhibit, the Walk-Around-The-World exhibit and temporary exhibit space), Reception/Club space of 30,000 square feet and 130,000 square feet of office space . . . totaling 500,000 square feet . . . as well as ICTC's fit-out and equipment requirements.

Approximately $54.5 million for increase in interest based on average development cost and increases in interest rates between June, 1988 (date of submission of the Development Proposal to Congress) and August 2, 1989 rates—used both by the developers and by PADC.

Approximately $15.6 million increased cost attributable to the extension of the project's construction period by approximately six months to November, 1994 for an achievable schedule.

Approximately $15.0 million for increased cost in the below grade portion of the complex, particularly under the existing Hemicycle and adjacent access to the Federal Triangle.

Approximately $3.5 million for tunnels to the Department of Commerce and to the Mellon Auditorium.

Approximately $2.0 million to remove recently discovered on-site contaminants.

It should be noted that these cost projections cannot include, at this time, GSA's final tenancy program or program modifications requested recently by the ICTC, requiring design changes currently being investigated. Based on current figures, however, the net occupiable office rental rate for the ICTC/FOB building compares favorably (at projected 1994 dollars) to other buildings in the Pennsylvania Avenue area. In making this comparison, it should be emphasized that while commercial rents provide no ownership potential at the end of the lease, the annual leasing costs of the ICTC/FOB include full amortization of all development costs over a 30-year period, at the end of which the Government will own the building.

If you have any questions, please do not hesitate to call me.

Sincerely,

RICHARD A. HAUSER,
Chairman.

PRELIMINARY FEASIBILITY ANALYSIS

Prepared For

U.S. INTERNATIONAL CULTURAL AND
TRADE COMMISSION

April 21, 1989

Prepared By

GA/Partners

U.S. INTERNATIONAL CULTURAL AND TRADE CENTER
DEVELOPMENT PROGRAM

Base Program		Area (SF)	Seats/Spaces
1.	Office Space	130,000	
2.	Retail	120,000	
	Merchandising	60,000	
	Food Service	60,000	
3.	Exhibit	130,000	
	Large Screen	16,000	
	World Link	18,000	
	World Walk	12,000	
	Permanent Exhibit	54,000	
	Temporary Exhibit	30,000	
4.	Club and Reception	30,000	
5.	Performing Arts and Film Center		
	Main Theater	80,000	1,900
	Film/Performance Center	10,000	800
	Total Space	500,000	
Supplementary Program			
6.	One Stop Reference Center	30,000	
7.	Conference Center	20,000	
8.	Language and Training Center	25,000	
9.	USICTC Administrative Office	15,000	
10.	International Offices	10,000	
	Total Space	100,000	
Grand Total		600,000	

* * * * * * *

11.	Parking		
	Day (spaces)		720
	Night (spaces)		1,310

Source: GA/Partners, February 1989.
MAQ60201\Tables.01

U.S. INTERNATIONAL CULTURAL AND TRADE CENTER

OPERATING ASSUMPTIONS

Lease Payment	Determination of Master Lease Payment
o Initial 2 years	Payment based on available cash flow.
o On-going Lease Payments	USICTC programmed space and pro rata share of of the Federal Triangle Project total cost.

Component	Area	Operating Considerations
1. Office Space	130,000	Independent Management
2. Retail	120,000	Independent Management
Merchandising	60,000	
Food Service	60,000	
3. Exhibit	130,000	Independent Management
Large Screen	16,000	
World Link	18,000	
World Walk	12,000	
Permanent Exhibit	54,000	
Temporary Exhibit	30,000	
4. Club and Reception	30,000	Independent Management
5. Performing Arts and Film Center		
Main Theater (seats)	1,900	Co-Presentation House
Film/Performance Center (total seats)	800	Co-Presentation House
6. Parking		
Day (spaces)	720	Independent Management
Night (spaces)	1,310	

Source: GA/Partners, April 1989.
MAQ60201\Tables.01

ICTC COMPONENT "PROFITABILITY"

Forecast Outlook	ICTC Program Elements
A. Cash Surpluses	Office
	Retail
	Parking
	Permanent Exhibit Space
B. Marginal or Break-Even	Large Screen Theater
	Club and Reception
C. Cash Deficits	World Link
	World Walk
	Temporary Exhibit Space
	Main Theater
	Film/Performance Center

Note: The supplementary program space below is assumed to operate on a break-even basis.

-- One Stop Reference Center
-- Conference Center
-- Language and Training Center
-- USICTC Administrative Offices
-- International Offices

Source: GA/Partners, February 1989.
\MAQ60201\Tables.01

U.S. INTERNATIONAL CULTURAL AND TRADE CENTER

COMPONENT CONTRIBUTION BASED ON ICTC PROJECT AREA
(Thousands of 1994$)

	Operating Income (1994)	
COMPONENT	Before Lease Payment	After Lease Payment
Offices	$4,700	$1,000
Retail		
Merchandising	$1,800	$ 100
Food Services	3,500	1,800
Exhibits		
World Link	$ (300)	$(800)
Large Screen Theater	900	450
World Walk	(200)	(500)
Permanent Exhibit Space	4,300	2,800
Temporary Exhibit Space	(300)	(1,100)
Club and Reception	$1,900	$1,100
Performing Arts and Film Center		
Main Theater	$(700)	$(3,000)
Film/Performance Center	(300)	(600)
Parking	$3,200	$2,300

Note: This pro forma represents one year of stabilized operations beginning in the initial year of occupancy (1994).

Source: GA/Partners, February 1989.
\MAQ60201\Tables.01

U.S. INTERNATIONAL CULTURAL AND TRADE CENTER
ESTIMATED CASH FLOW FROM OPERATIONS AFTER LEASE PAYMENTS

(In thousands of Current Dollars)

Year	Annual	Cumulative
1994	$ 0	$ 0
1995	$ 0	$ 0
1996	($2,703)	($2,703)
1997	($2,009)	($4,712)
1998	($1,274)	($5,986)
1999	$ 1	($5,985)
2000	$ 835	($5,150)
2001	$ 1,530	($3,619)
2002	$ 2,257	($1,362)
2003	$ 3,018	$ 1,655
2004	$ 4,424	$ 6,080

Rental exp. of $1.7 mil/yr.

Source: GA/Partners, April 1987.

MAZ60201\TABLES.01 mjm

KPMG Peat Marwick

PRELIMINARY ORGANIZATIONAL REVIEW OF THE UNITED STATES INTERNATIONAL CULTURAL AND TRADE CENTER

Prepared by KPMG Peat Marwick Main & Co.
Washington, D.C.

March 1, 1989

KPMG Peat Marwick

PRELIMINARY ORGANIZATIONAL REVIEW

Table of Contents

Study Objectives and Scope 1

Key Factors 2

Governance 3

Major Activities and Support Functions 10

Proposed Organizational Structure 12

Staffing and Budgetary Implications 17

Next Steps 19

PRELIMINARY ORGANIZATIONAL REVIEW
Study Objectives and Scope

- Define the governance structure, including the interactions between the Commission and its operating entity
- Determine the functional responsibilities necessary to operate the Center
- Define key organizational roles
- Identify staff requirements
- Estimate operating costs

PRELIMINARY ORGANIZATIONAL REVIEW
Key Factors

- The Commission was established in the Federal Triangle Development Act, with a range of duties including construction planning, leasing of the space from GSA, operating the building, and preparing the annual report on the operations of the Center
- Currently, the Act limits the staff of the Commission to ten individuals, and places a ceiling of $1,000,000 on total annual expenses
- It is the goal of the Center to operate self-sufficiently within a two year time frame

PRELIMINARY ORGANIZATIONAL REVIEW

Governance

- o The Center must interact and communicate with numerous organizations, including:
  - the Executive branch
  - the Congress
  - the General Services Administration
  - the Pennsylvania Avenue Development Corporation
  - Domestic governmental agents
  - International governments
  - the District of Columbia government
  - Trade and cultural organizations

- o It is anticipated that the Center will begin occupancy in late 1993, with full occupancy being achieved by mid-1994 (Exhibit I)

EXHIBIT I

USICTC
IMPLEMENTATION TIMELINE

1989	1990	1991	1992	1993	1994	
Preliminary Planning	Complete Preliminary List of Tenants	Complete Construction of Exhibit Space	Complete Construction of Retail Space	Complete Construction of Office Spaces	Begin Occupancy	Achieve Full Occupancy
• Engage rental agents and marketing personnel • Begin marketing effort to determine potential tenants and their space/special needs • Determine overall organizational structure • Finalize permanent Federal tenancy • Identify and hire senior management • Approve architectural and construction design	• Begin negotiation of lease terms with interested parties • Engage staff in charge of exhibits/programs • Negotiate and finalize construction contracts • Develop detailed plans for trade services/programs in the Center • Begin construction	• Complete construction of building exterior • Begin planning and scheduling for exhibits/programs • Determine partnership level and agreements for the Trade Information Center • Determine "anchor" tenants of international organizations	• Set standards for retail establishments to ensure the appropriate "feel" for the center • Begin negotiation of lease terms with interested parties for office and retail space	• Distribute materials describing trade and cultural programs and their detailed schedules • Engage property management team • Plan for grand opening of the Center • Finalize tenant contracts	• Test all systems, operations, and procedures • Coordinate tenant move ins and Center support staff needs • Manage start-up modifications and adjustments • Hold grand opening ceremonies	• Successful Operations
→	→	→	→	→	→	
PHASE I		PHASE II		PHASE III		
Planning		*Construction and Implementation*		*Occupancy and Operations*		

PRELIMINARY ORGANIZATIONAL REVIEW
Governance
(Continued)

o There are three alternative governance models for the Center to consider:

- governmental agencies
- for-profit corporation
- non-profit organization

o The criteria to select an overall structure include:

- Organizational mission and goals
- Major activities and programs
- Simplicity and ease of management
- Flexibility in the receipt and use of funds
- Tax implications

PRELIMINARY ORGANIZATIONAL REVIEW
Governance
(Continued)

- Based on these criteria, KPMG Peat Marwick recommends a non-profit organization be established to operate the Center under the overall Commission structure

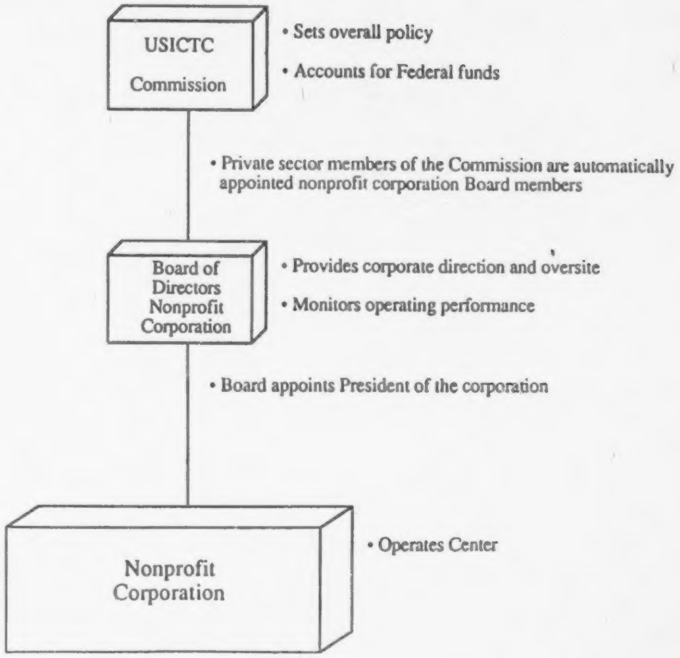
- Key roles for each entity could be:

  - A Commission to set overall policy and account for federal appropriation
  - A non-profit Board of Directors to provide corporate direction and management expertise and experience
  - A management and staff of the non-profit corporation to operate the Center

- Exhibit II on the next page presents the overall organizational structure

EXHIBIT II

GOVERNANCE STRUCTURE OF THE UNITED STATES INTERNATIONAL CULTURAL AND TRADE CENTER


USICTC
Commission
• Sets overall policy
• Accounts for Federal funds
• Private sector members of the Commission are automatically appointed nonprofit corporation Board members
Board of Directors Nonprofit Corporation
• Provides corporate direction and oversite
• Monitors operating performance
• Board appoints President of the corporation
Nonprofit Corporation
• Operates Center

PRELIMINARY ORGANIZATIONAL REVIEW

Governance

(Continued)

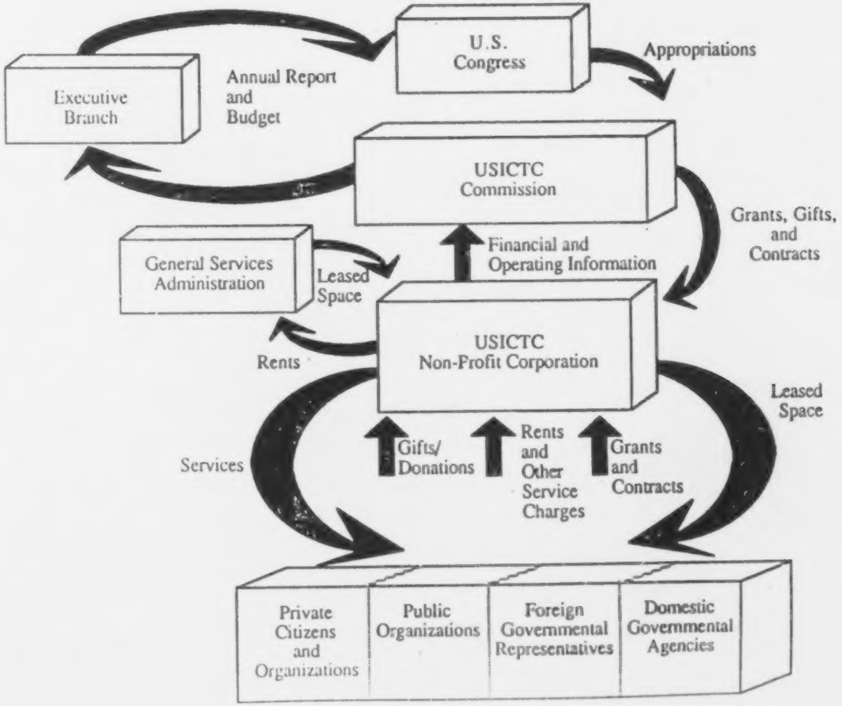
o The different governing levels will interact and exchange a significant amount of financial information. This information will include:

- Accounting for gifts and donations
- Allocating and accounting for grants
- Paying and receiving funds for rent
- Charging and accounting for service charges
- Preparing and reporting financial and operating information
- Preparing and reporting the budget and annual report

o Exhibit III illustrates the financial interactions

EXHIBIT III

FINANCIAL INTERACTIONS IMPACTING THE UNITED STATES INTERNATIONAL CULTURAL AND TRADE CENTER


Executive Branch
Annual Report and Budget
U.S. Congress
Appropriations
USICTC Commission
Grants, Gifts, and Contracts
General Services Administration
Leased Space
Financial and Operating Information
Rents
USICTC Non-Profit Corporation
Leased Space
Services
Gifts/ Donations
Rents and Other Service Charges
Grants and Contracts
Private Citizens and Organizations
Public Organizations
Foreign Governmental Representatives
Domestic Governmental Agencies

PRELIMINARY ORGANIZATIONAL REVIEW

Major Activities and Support Functions

- The anticipated major activities of the Center are:
    - One-stop trade information center
    - Exhibit area
    - Performing arts theatre
    - Retail space
    - Chancery annex/office space
    - Educational and training center
    - Conference center
    - Reception center

PRELIMINARY ORGANIZATIONAL REVIEW
Major Activities and Support Functions
(Continued)

- The necessary support functions include:
  - Accounting and financial management
  - Management information systems
  - Building maintenance and custodial support
  - Security
  - Marketing
  - Legal Counsel
  - Human Resources
  - Fundraising
  - Leasing
  - Parking management
  - Internal audit

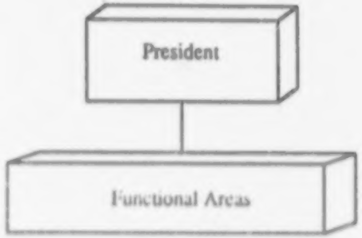
PRELIMINARY ORGANIZATIONAL REVIEW

Proposed Organizational Structure

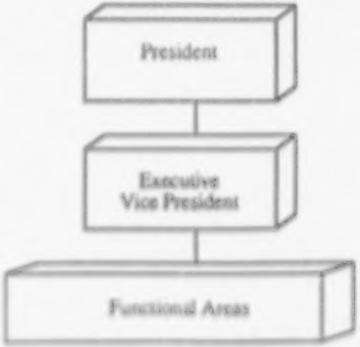
- Two operating organization structure options are proposed, one for an "the interim period" to support the Center through the planning and construction phase, and a second to support the full operation of the Center
- For the initial, "interim period", we recommend direct functional reporting to the President of the non-profit corporation, as shown in Exhibit IV
- For full operation, we recommend creation of an Executive Vice President function to direct the Center's functional activities (Exhibit IV also presents the full operating structure)

EXHIBIT IV

Interim Executive Management Structure - USICTC


President
Functional Areas

Longer Term Executive Structure


President
Executive Vice President
Functional Areas

PRELIMINARY ORGANIZATIONAL REVIEW
Proposed Organizational Structure
(Continued)

- On an interim basis, functional reporting to the President appears to be the best alternative because it is the least costly, allows direct guidance and intervention, reduces communication gaps, and provides the most flexibility

- For the longer term, functional reporting to a single Executive Vice President appears to be the best alternative, because it separates the overall internal and external responsibilities, limits coordination requirements, and clarifies accountability for day-to-day operations of the Center

- The following two Exhibits illustrate the proposed interim and the final organizational structure, including all key Center functions and staff

EXHIBIT VI
PROPOSED USICTC ORGANIZATIONAL CHART

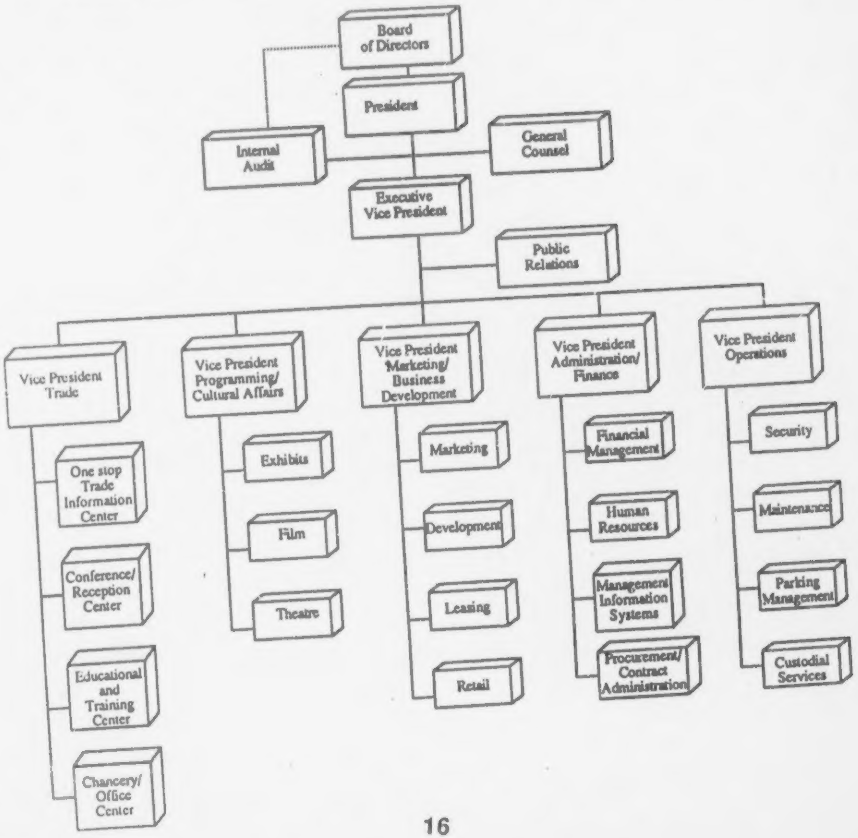
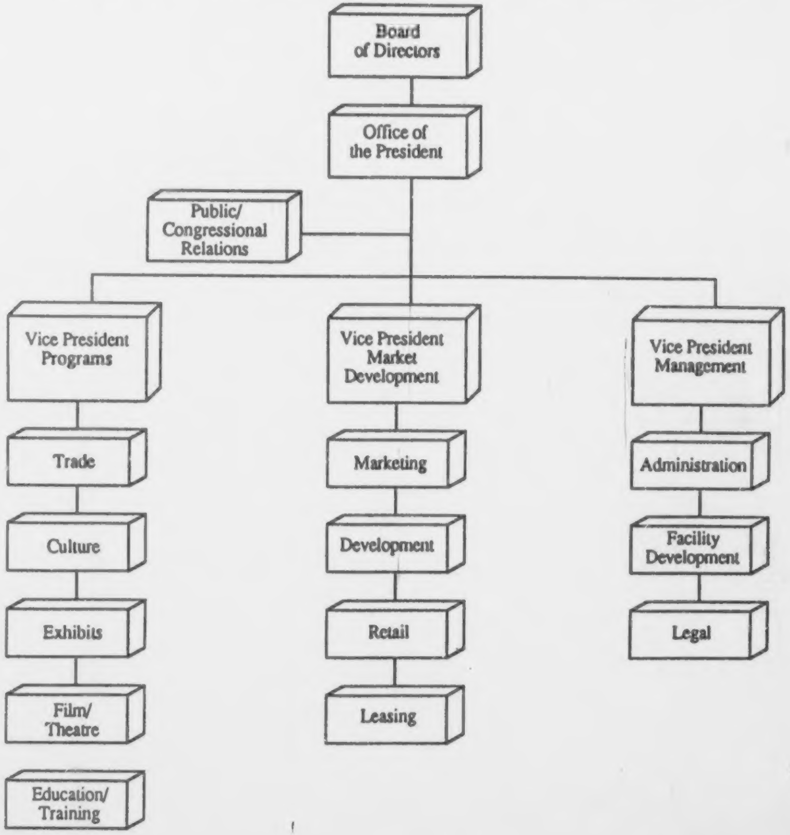

Board of Directors
President
Internal Audit
General Counsel
Executive Vice President
Public Relations
Vice President Trade
One stop Trade Information Center
Conference/ Reception Center
Educational and Training Center
Chancery/ Office Center
Vice President Programming/ Cultural Affairs
Exhibits
Film
Theatre
Vice President Marketing/ Business Development
Marketing
Development
Leasing
Retail
Vice President Administration/ Finance
Financial Management
Human Resources
Management Information Systems
Procurement/ Contract Administration
Vice President Operations
Security
Maintenance
Parking Management
Custodial Services

EXHIBIT V
PROPOSED INTERIM USICTC ORGANIZATIONAL CHART


Board of Directors
Office of the President
Public/ Congressional Relations
Vice President Programs
Trade
Culture
Exhibits
Film/ Theatre
Education/ Training
Vice President Market Development
Marketing
Development
Retail
Leasing
Vice President Management
Administration
Facility Development
Legal

PRELIMINARY ORGANIZATIONAL REVIEW

Staffing and Budgetary Implications

- The permanent staff support of the Commission will be limited initially to an administrative assistant, and under full operation, will also include a financial administrator and a secretary
- The total operating budget of the Commission will grow from approximately $180,000 for Phases I and II, to $350,000 under full operation
- The proposed staffing and salary costs for the interim and final organizational structure are:

Organizational Phase	Staffing	Estimated Salary Costs
- Phase I: Planning	25-35	$1,000,000 - 1,600,000
- Phase II: Construction Implementation	50-60	$2,000,000 - 2,500,000
- Phase III: Operations	90-125	$3,500,000 - 4,500,000

PRELIMINARY ORGANIZATIONAL REVIEW
Staffing and Budgetary Implications
(Continued)

- It is assumed that the Center will use contracted services for the labor intensive activities (e.g., security, custodial support, maintenance, etc.)
- The overall operating expenses for the organizational structures are:

- Phase I: Planning	$ 3,000,000 - 3,600,000
- Phase II: Construction Implementation	$ 5,000,000 - 7,300,000
- Phase III: Operations	$22,000,000 - 24,900,000

- These expenses for operations do not include the master lease payment

PRELIMINARY ORGANIZATIONAL REVIEW

Next Steps

- Obtain agreement on organizational plan
- Obtain necessary funding for 1990
- Identify and hire the interim management team
- Conduct a detailed organizational review to determine:
  - Specific number of positions needed, including classification, responsibilities, and salaries
  - Automated system requirements
  - Personnel policies and procedures
  - Required financial controls, policies, and procedures
  - Operating policies and procedures

PRELIMINARY ORGANIZATIONAL REVIEW

Next Steps

(Continued)

- Implement the financial, personnel, and operating policies and procedures
- Select, acquire, test, and implement the necessary automated hardware and software
- Identify, recruit, and hire the remaining Center staff
- Begin first year operations

CONSTRUCTION MANAGEMENT AS A MEANS TO REDUCE OR CONTROL FEDERAL CONSTRUCTION AND RENOVATION COSTS

Mr. Bosco. The next matter will be the discussion on Construction Management as a means to reduce or control Federal construction and renovation costs. We would like to call Mr. James Stewart, Director of Design and Construction, Office of Real Property Development of GSA and Mr. Donald Piser, the Chairman, President and Chief Executive Officer of MorseDiesel, which is one of the country's top construction management companies.

Thank you, gentlemen, for being here. My concern in this started about a year ago when I realized we would be building about $3 billion worth of new buildings. We are going to be moving legislation on this at the beginning of next year. We expect to build approximately 21 new buildings; some here in Washington, others scattered around the country. I think, in the course of that, we want to be sure that we take the right steps to ensure that costs are contained and that we get our money's worth for the $3 billion.

One approach to this is a construction management approach, so I thought we would take a little time to see where we stand on this in way of building buildings.

We would like to start with Mr. Piser, if that's all right. I know that Mr. Stewart was first on the agenda, but he had wanted the opportunity to, perhaps, respond to things that you might say. Are you ready to go, Mr. Piser?

Mr. PISER. Yes, Mr. Chairman, I'm ready.

Mr. Bosco. Thank you very much. We appreciate your being here and we are ready to hear your testimony.

TESTIMONY OF A PANEL CONSISTING OF DONALD H. PISER, CHAIRMAN, PRESIDENT AND CHIEF EXECUTIVE OFFICER, MORSEDIESEL; AND JAMES B. STEWART, DIRECTOR, DESIGN AND CONSTRUCTION, OFFICE OF REAL PROPERTY DEVELOPMENT, GENERAL SERVICES ADMINISTRATION

Mr. PISER. Good morning, Mr. Chairman, and Members of the Subcommittee.

My name is Donald Piser, and I am Chairman, President and Chief Executive Officer of MorseDiesel, which is a construction management and consulting firm headquartered in New York. I am pleased to present testimony before you today on the construction management concept as it relates to construction in both the private and public sector. If appropriate and desirable, I would like to summarize my testimony and submit my full written testimony for the record.

MorseDiesel is in the business of managing construction. As construction managers, we have proven to a broad spectrum of corporations, developers and institutions that they can control the outcome of their building projects regardless of their complexity. We have excelled by developing state-of-the-art methods and techniques for controlling the construction process and by applying this expertise consistently from the inception of a project through its completion.

MorseDiesel has had extensive experience acting as construction managers and consultants in both the private and public sector. As an example, MorseDiesel has acted as a construction manager on the Philip Morris World Headquarters Building, the Coca-Cola USA Tower in Atlanta, the Pan Am Building in New York, the Sears Tower in Chicago, the National Gallery of Art's East Wing here in Washington, the Manhattan House of Detention in New York and, currently, the Chicago Federal Building for the GSA in downtown Chicago. In addition, we have had extensive experience on large renovation projects. They have included the renovation of the New York Stock Exchange for the last 20 years and, currently, the Philip Burton Federal Building in San Francisco.

Simply put, construction management is a means of providing clients representation and control of their construction projects. Construction management brings techniques that provide the client with control of costs, schedules and quality and can be applied to the range of construction projects whether they be large or small, straight forward or highly complex.

To be successful, construction management must be practiced in a teamwork atmosphere. The project team must be willing to share information, critique each others work in a constructive fashion, welcome peer review, and truly look out for the project's best interest.

The concept of construction management is not easy to explain. As one commentator said, "a construction manager is whatever his agreement with the owner obligates him to be." Unfortunately, that happens to be true and make clients utilize some form of construction management and often miss most if not all of its benefits.

Construction management services generally fall into two broad categories of responsibility; consulting for the client during the initial programming, or preconstruction phase, and then construction phase as a manager or contractor. A construction management firm is able to have the greatest impact on control when it is given the responsibility of overseeing, on behalf of the owner, both the preconstruction and construction phase.

During the preconstruction phase, a construction management team will establish milestone budgets, schedules, review the design for constructibility, and conduct value engineering. The project team initially agrees upon a definitive project budget and schedule and ties that into a specific program.

The prime function of the construction manager then, during the preconstruction phase, is to keep the client fully informed as to the progress of design vis-a-vis the budget and schedule and to provide the client with opportunities to save time and money.

As the design and contract documents are being prepared and finalized, value engineering is as practiced by MorseDiesel an organized and systematic approach to examining each facet of the building, whether it be architectural, structural, mechanical, or electrical, and it is essentially done on a systems basis.

The primary goal here is to increase the value to the owner on all major components of the project by examining and testing not only the first cost, but life-cycle cost, performance and compatibility with the intended use of the building.

The project's quality is frequently enhanced while staying within the owner's required project budget. This cannot be accomplished in a vacuum. It is a result of intensive team driven studies and workshops with everyone on the team—the owner, the architect, the engineers, the specialist consultants, and the construction manager—working together to achieve the goals initially established while maximizing value.

Also, during the preconstruction phase, a construction manager will forecast cash flow, prepare, analyze, and make bid package recommendations, and issue monthly executive reports to the client and other key members of the project team.

To summarize, in the preconstruction phase, a construction manager will provide team leadership, cost information and control, schedule information and control, constructibility reviews, document coordination, and value engineering.

Now once preconstruction has been completed, the project can go out to bid in either one of three ways: a conventional construction management approach, a construction management approach with a guaranteed price, or the traditional general contracting lump-sum format.

Whichever route is chosen, a construction manager can provide services either as a consultant, or as an owner's agent, or as a construction manager to his client.

A significant advantage of the construction management approach, as utilized in the private sector, is the construction manager's ability to prequalify contractors, to examine their workload and manpower availability, and to require them to coordinate their work fully with others.

During the construction phase of the project, the construction management team is responsible for a myriad of activities ranging from coordination between all contractors on the site and local authorities, the contract interpretation, supervision of all the working documents and maintaining the schedule and the budget.

The construction manager will also evaluate all change orders for justification of time and cost impact. The manager's on-site team will minimize the impact of any changes and may well be able to suggest alternatives that have zero cost and time impact.

Construction management as it is practiced today is very much a specialized field. We manage the entire process from inception through completion, combining the knowledge gained from hands-on construction field experience with that of managers who have persevered in the application of management systems and techniques of construction.

The professional construction manager knows how to plan both during design and to execute in the field. Above all, the professional construction manager knows how to think like an owner, and, therefore, how to represent one. Every alternative that is recommended, and every contract that is negotiated, and every change order that is reviewed and issued, and every inspection that is made, or every payment that is authorized, is done as if the professional construction manager was standing in the owner's shoes. What's more, a professional construction manager, as opposed to an architect engineer or a construction firm acting as a construction manager, is free from any conflicts of interest.

The cost savings that accrue to the owner as a result of construction management participation clearly make the relationship worthwhile.

Cost savings are likely to occur both directly and indirectly through a construction manager's ability to bring on-site control of the job hour by hour, which results in swift resolution of field-related problems and decreases the likelihood of change orders. It requires the contractors to focus upon their agreed schedules and manpower requirements and enforce quality standards.

Construction managers will coordinate the many subcontractors' schedules and their performance, and he does this literally by building the project on paper before field activity commences.

The construction manager will also provide a project team who have specific and relevant skills for each project, and this is vital to the project's success.

Also, with respect to MBE-EEO requirements, a CM can be extremely effective in implementing the required goals by working with the various contractors in the marketplace to achieve the goals required.

Now in the early 1970s, the federal government experienced problems with the implementation of the construction management concept. These problems resulted from among other things, the inability of the federal government to delegate authority to a construction manager, the varigus contract arrangements, and the Federal government's funding structure. This resulted in the government not realizing the benefits from construction management that the private sector had realized and continues to realize.

Despite this unsuccessful venture into CM use in the early 1970s, the GSA and other federal agencies charged with responsibility for construction remained determined to assure that their projects came in on time and on budget, and have again begun experimenting with and implementing new construction concepts that suit particularly well the use of construction management.

One of those is the design/build concept which is now seriously being considered and, indeed, utilized by GSA and other federal agencies as a means to better control the construction process. The design/build concept is a contractual agreement whereby the owner contracts with a single entity for the design and construction of a project rather than contracting for the design and construction separately. The design/build concept thus provides the Federal government with the opportunity to take particular advantage of construction management to help assure that public buildings come in on budget.

The development deal for the Chicago Federal Building, which includes MorseDiesel, is utilizing the design/build concept. We are proud to report to the Subcommittee that the project is progressing on time and on budget. We are confident that this project will serve as an example of how the concepts of design/build and construction management can work together to assure that future Federal projects are highly successful.

I appreciate the opportunity to present this testimony before you today, and I would be happy to answer any questions you may have. Thank you.

Mr. Bosco. Thank you, Mr. Piser. We will go now to Mr. Stewart and then have questions after his testimony.

Mr. **Stewart**. Mr. Chairman and Members of the Subcommittee, it is a pleasure to appear before you today.

I have been asked to discuss the use of construction managers in the General Services Administration. Our current policy calls for the use of construction managers in two categories. The first is project specific construction managers for use on projects exceeding $10 million; the second is an indefinite quantity of construction management contracts for smaller projects.

As of February 1989, we have thirteen major projects which are being managed by construction managers, and we have in place eleven indefinite quantity term contracts, which are assisting us with numerous small projects. The construction manager is used to assist GSA project managers in ensuring that the project is completed on time, within budget, and with a high degree of quality.

The construction manager is intended to be used as a cradle-to-grave support contract providing the following services:

Additional professional expertise that will supplement the GSA work force:

Input on the design quality, constructibility, technology and materials, and the marketability of all our projects;

Schedule control and tracking assistance as well as project cost validation and cost control, and, additionally, inspection and construction contract administration.

Construction managers are an essential element in the GSA construction delivery process and instrumental in assuring construction with a high degree of quality, delivered in a timely manner, and is cost beneficial to the federal government.

If there are any questions, I would be glad to respond to them.

Mr. Bosco. Thank you. Mr. Piser, we are going to be doing legislation at the beginning of next year, that, hopefully, our Subcommittee will be able to agree on before we present it to the rest of the Congress. As I mentioned, we will probably be constructing about $3 billion worth of buildings through a new type of financing.

We have been stalled in a lot of this in the past because of disagreements on financing and not having the money and a variety of other reasons, but I have in the back of my mind, a number of comments people have made, that it costs the government so much more to build anything.

Someone, such as yourself, has had experience in building for the private sector and for the government. In general, do you feel that it costs the government more? Do we end up wasting money on needless regulations and red tape? If you were to do a major project for the government and a major project for the private sector, would you expect the government one to end up costing more?

Mr. **Piser**. It is very difficult to give you specific examples, but I think without a question that it would cost more to the federal government. I can only cite some recent experiences on the GSA project, for example, where the intent was to effectively have a design/build building that was equivalent to a first-class office building, typical of Chicago standards.

What we are finding is that, as the design is evolving and the various requirements and regulations that could fill this table, for example, painting every conduit red that's required, whether it's behind the wall or no matter where it is, I mean, you get into details that, while they seem to be small items, can on a major project of over a million square feet, begin to add premiums just in the specific requirements that are unique to government-type facilities.

In addition to that, I think you have the burden of the administrative requirements with respect to paperwork and so on, which are substantially more than what we generally experience.

So, I think, there is a combination of factors there that I can identify with. I think, more important, though, is the traditional approach of the Federal government with respect to the lump-sum bidding concept, as opposed to the private sector where the jobs, and I would say 75 to 80 percent of the private-sector jobs, are handled on a construction-management negotiated basis.

On that basis, I think, the final cost to the user, to the client, is substantially less.

Mr. Bosco. Mr. Stewart, has the GSA systematically gone through all of the regulations and requirements that the government has, to see if some can be weeded out or if some are outdated or unnecessary or haven't worked in the past?

Mr. STEWART. We have had a continuing effort since approximately 1988 to go through all our technical requirements. We recently adopted the BOCA code as our code and are sweeping through our own technical criteria at this point in time, to try to weed out as much unique kind of criteria that we built into our system from a technical aspect, to bring that more to a private-sector standard.

We do have some safety types of aspects or some owner requirements. One of the ones that Mr. Piser mentioned happened to be color coding our safety conduit, our fire alarm and safety system, so that we can find them in the building as time goes on and occupancy.

We have moved very much to a private-sector technical criteria for our buildings. We continue to have many of the social aspects that are better, built into our contracting procedures. We tend to lead when we talk about accessibility kinds of criteria and tend to be one step ahead of the private sector before bringing those along. So there are some unique features of Federal construction that tend to be a leadership item.

Mr. Bosco. I don't think anyone would suggest backtracking on accessibility or the social requirements, but even they, perhaps, have to be reviewed. What you are saying is you do conduct an active review of this.

Have you consulted with the private sector on this, or with construction managers, or with those that successfully reduce the cost of these buildings?

Mr. STEWART. In our review process, we have had an extensive private-industry consultation to move as closely as possible to the private-sector approach to criteria, specifications, and that type of thing.

Mr. Bosco. Mr. Piser, do you have contracts with either the private sector or the government to bring a project in for a certain cost, whereby if you didn't bring it in for that cost you would be held responsible?

Mr. PISER. Yes, Chairman. We have about 60 percent of our current volume on what is traditionally called now, a guaranteed maximum-price format. In other words, we widl determine early in the process what a target budget is going to be.

We will then work with the team, the architect engifeers, in defining the documents to appoint where they can be bid in the earketplace. At which point, the majority of the subcontractors, approximately 80 percent of them, are now bid and awarded. At which point, we will then guarantee at total cost to the client.

So we then put ourselves, if you will, in the risk position but, by the process of doing that, the risk is minimal as we view it. The track record we have supports that because our projects are historically within the guaranteed price and very often with two to three percent of the final number of the original target number.

Mr. Bosco. Have you done this with any government project?

Mr. PISER. We haven't, unless you consider the design/build project in Chicago as in that format, which it is effectively. The design/build concept is essentially where we have guaranteed the cost to the developer who in turn has guaranteed it to the government. So we are in that link, but it isn't a direct link. But, effectively, we have, yes.

Mr. Bosco. Thank you. Mr. Petri.

Mr. PETRI. Thank you. I found your testimony quite interesting. I can understand if someone is running, say, IBM or United Airlines or whatever, they say: We are in the airline business, we're not in the contracting or building management business. So we want to get someone who is really in that business.

It is hard to have someone on staff doing it because they are not always involved in major construction. So you are the expert they call up and you make it happen. But we have GSA and we are in the building business as a federal government. So why don't we have a Mr. Piser working at GSA that, when the Congress and the Administration decide we need a building somewhere, we say "Mr. Piser, make it happen," and he goes and does it?

What is it that you bring to the mix in the government? I can see what you bring to the mix in the private sector. Why is it that we need you in the public sector and can't just rely on GSA and general contractors to get the job done?

Mr. PISER. Just like you have in-house counsel, you very often employ out-house counsel, if I can use that word. I think the reason you do is because these firms have specific expertise, and they are specialists in a particular type of work. Basically, we believe that our skills and our people and our approach are such that it will provide you with additional expertise and support.

I'm not suggesting that outside construction managers in any way replace the GSA but, in fact, join with the GSA in helping to produce more cost-effective buildings. Just like you could hire your own architects and do your own design but, when you want to have something that is special and different and unique, you go to the outside/private sector, and we feel we can provide that similar type of support to help bring the process in a managed and control fashion.

Mr. STEWART. I would add to that from a GSA perspective, Congressman, that we have an in-house staff of approximately 700 around the country. They are working hard at delivering an ongoing program of nits and grits and $20,000 repair jobs here, and $50,000 repair jobs there, and trying to keep our continuity of workload going.

As you bring in a major project, it is more efficient for us to work with a construction-management approach and focus that set of resources to come in and handle that major project because we probably wouldn't have the need to retain employment at that level over the long haul and then, when that job is finished, we will go on to the next one somewhere else. So, from that aspect, it is very helpful for us.

Mr. PETRI. What is the typical stage to bring a construction manager into the picture?

Mr. STEWART. Our philosophy is to include the construction management in the design phase. One of the features which we are looking for from a construction manager is a review of our designs both from a cost-management viewpoint, a value-management aspect, to help us identify those things which we might be able to save money on but, also, look at our designs from a constructibility viewpoint to help us bring out the conflicts that look towards change orders or claims during the construction phase. So we think it is important to include them as a partner at that time.

Mr. PETRI. Do you try to get them involved on the takeoff rather than when you get in trouble?

Mr. STEWART. Right.

Mr. PETRI. Do we have a construction manager for the International Center that we are building on Pennsylvania Avenue, or is one involved for the Southeast Federal Center?

Mr. STEWART. There will be one involved for the Southeast Federal Center. The Pennsylvania Avenue development is being managed and effected through PADC. I'm personally not involved with how they are dealing with that aspect of the job, Congressman.

Mr. PETRI. You would have to make an inquiry.

Mr. STEWART. Yes. There is a proposal out now.

Mr. PETRI. So you and others are talking with them?

Mr. PISER. We have submitted, but we haven't heard yet. So we are keeping our fingers crossed.

Mr. PETRI. We thought they were past the design stage?

Mr. PISER. They are, basically, in the very preliminary conceptual stage.

Mr. PETRI. They are in conceptual stage because the concept keeps growing. They got the nose of the camel in the tent, and now the rest is trying to squeak through, I guess. [Laughter.]

Do you do work for any government agencies other than GSA? Are you involved with the Pentagon or other Federal agencies on government-type projects, base building, airports or other things like that, or is it mainly office buildings?

Mr. PISER. We have done airport work. We have done jail work, hospitals. We have worked for the VA. We have worked for the Navy. I think that was the Department of Defense. I'm not sure. But we have done several projects with the Government and its various agencies, but not as much as we would like to. We would like to do a lot more.

Mr. PETRI. Do you work internationally? I suppose there may be people doing a similar thing, but it would be a big advantage of getting a French firm to do it if we happen to have a project in that country and so on.

Mr. PISER. I think our management skills are really transferrable to any type project anywhere, but the majority of our work is here in the U.S. We have a London operation now as well, but the management skills are really the key to the success of the project. Regardless of where the project is, we can keep a pulse on what the cost structure there is very quickly as far as giving budget input and so on.

Mr. PETRI. Do firms such as ygurs have the capacity to come in after a project is completed and, in effect, do an audit of it so we can learn from our mistakes? If something has had a severe overrun or there have been questions about it, can you render a professional opinion, so to speak, about the way it was handled and whether they were really honest mistakes, or whether there are signs there that this was aggressive looting of the Treasury or whatever?

Mr. PISER. We could do that. It is not part of our business, but if a client wanted that type of advice and input, obviously, we could provide such a critique; yes.

Mr. PETRI. Have you ever done that in the private sector for companies?

Mr. PISER. We have done some of that. We really don't like to get into litigation and court battles. That really is not our business. In all honesty, we have done it behind the scenes for clients that are friends of ours and we have said, "Look, here is where the real problems were, and if you guys want to go——"

Mr. PETRI. They have asked you for a private opinion as to whether they had the grounds——

Mr. PISER. Right. But we really don't want to be expert witnesses in chasing ambulances around.

Mr. PETRI. Thank you.

Mr. BOSCO. Mr. Lewis.

Mr. LEWIS. Thank you, Mr. Chairman.

Mr. Piser, you obviously have a history of working with minority firms. I notice you stated in your prepared statement, "With respect to MBE-EEO requirements, a construction manager can be extremely effective in implementing the required goals by working with the contractor in the marketplace." Now in building the Coca-Cola Tower in Atlanta on North Avenue, did you use minority firms?

Mr. PISER. Yes. Again, we were consultants on that project. There was a joint venture put together. You'll have to forgive me. I can't remember the contractor's name.

Mr. LEWIS. Was it Herman Russell?

Mr. **Piser**. Yes. Right. And he was part of the joint venture on the entire contract with a local contractor. In addition to that, as the major prime subcontractors were being awarded, we were encouraging participation from the minority subcontractors and small-business communities to take pieces of the work and were able to structure some of the bid packages so that they were of the appropriate size where some of the smaller firms could then be participants in the project.

Mr. **Lewis**. Do you have any minority firms or minority vendors involved in the building of the Chicago Federal Building?

Mr. **Piser**. Yes, sir. It's substantial. I probably should have brought that information with me. I don't have it at my fingertips, but I can certainly send that to you. We have a very aggressive program. I forget exactly what the goals were that we established when we initially submitted it, but we are slightly exceeding those goals today, and we are very proud of what we have been able to do in the marketplace in Chicago. It's working very well.

Mr. **Lewis**. Did the Herman Russell firm in Atlanta do a good job, or are the minority firms in Chicago doing a good job?

Mr. **Piser**. They are, yes. With across-the-board subcontractors, you occasionally get some problems. My experience has been excellent with the track record that we have had because of the type of work that we do up front in selecting and going through the opportunities for the subcontractors in the minority area and making sure that, first of all, they fully understand the scope of the work of the job, that they have it properly financed and, if they don't we will assist them in that area, and that they really don't bite off more than they can chew.

So we are very selective in how we do it, and the results are very good.

Mr. **Lewis**. Do you have any recommendation of how we can encourage other construction managers, other firms, to use other minority firms and vendors in the future, particularly, in the public sector?

Mr. **Piser**. Again, I think one of the way to encourage it is to reward the ones that do it well in the past. If I can put a commercial in, I think, we are one of those firms. If the competition sees that we become successful and begin to get more government work as a result of our efforts, they will follow. It is not something that's impossible to do. It takes some work. It takes some effort. There is no reason why it shouldn't be done.

Mr. **Lewis**. I use the term minority. It should not only apply to blacks or Hispanics or men, but also women. I know a great many women are getting involved in construction. Have you had any opportunities to work with women-owned firms?

Mr. **Piser**. We have. I must confess to you that that is probably the more difficult area because there is not the number of firms to draw from, so that is more difficult that some of the other goals that we have set.

Excuse me. David just reminded me that we are working with a minority firm in Philadelphia, which is a woman-owned firm, Temple Construction, and that is working out very well, on the Philadelphia Convention Center.

Mr. **Lewis**. Thank you very much. Thank you, Mr. Chairman.

Mr. Bosco. Mr. Cox.

Mr. Cox. Mr. Stewart, you mentioned in your testimony that GSA is presently using construction managers on thirteen projects. If I could ask Mr. Piser or Mr. Stewart or both together: is what GSA has undertaken of the same nature of what MorseDiesel does, that, when we are speaking construction management, are we talking apples and apples or is it apples and oranges?

Mr. PISER. I think it is a little bit of apples and oranges. The GSA concept is more of a utilization of construction management during the preconstruction portion and is in some ways limited as to the participation of the construction manager in the process.

In the private sector, we are a very strong team player; whereas in the concept of the GSA, we are more of a consultant and not really in charge, if you will, of managing the process. I view it as a difference.

When you get into the construction phase, then there is a significance difference because of the requirements for bidding and public bidding, and so on, as opposed to negotiated work and prequalifying of bidders and so on, so there is a significance difference in the construction phase.

Mr. Cox. So, from your perspective, the GSA and the Federal government have yet truly to move into the kinds of construction-management services that MorseDiesel would provide?

Mr. PISER. That's correct.

Mr. Cox. Mr. Stewart, do you want to respond to that?

Mr. STEWART. In terms of the response regarding the private-sector approach to the physical contracting of the construction, I would have to agree with Mr. Piser. Because of the laws and regs associated with federal construction procurement, we have not been able to achieve that level of participation or to take advantage of some of those aspects of construction management.

I would say that GSA's approach to construction management, as we tend to tailor the services around the job that we are undertaking and we get construction-management participation at different levels, GSA has embarked upon a series of design/build type of projects where we are involving construction management from the private-sector side as part of the developer's team, which is what Mr. Piser was talking about in Chicago.

We, also, on that project will employ a construction manager as our consultant to kind of keep us advised as to the developer's progress and how that's moving along. We are now looking at, for the least-cost program coming up, getting ready to start expanding the design/build approach further and investigating the feasibility of going to a guaranteed-max approach and trying to achieve some of the cost savings that we might by guaranteed max and having the contractor bid out the project and achieve some savings or share some savings there.

So I think we are maximizing or moving toward maximizing the construction manager as we move on into this program.

Mr. Cox. You mentioned federal regulation requirements limiting the use of construction managers in essence by the government. Can you identify any in specific that are problems?

Mr. STEWART. When we started out with construction management as a philosophy in the early 1970s—1971 through 1979—we adopted an approach of trying to replace our general contractor with a construction management firm. In that process, we went through the design process much as we organized it. We packaged construction into a series of subcontractor-type approaches and bid those as Federal contracts through our construction manager, but they ended up being Federal contracts.

The delayed-claim clauses, we were unable to pass through some of the things that you are able to pass through in the private sector. That tied us up in courts with significant subcontractor delay, and this subcontractor which fell back onto GSA in terms of liability. It just all folded up in a set of claims that we couldn't control.

So this time around we are bringing the construction manager in more as a consultant, not trying to replace the general contractor, so to speak, but trying to achieve some of the control, the scheduling help, the estimating support, the value-management support, and that site control and management aspect that they can bring to the job.

Mr. Cox. A quick question, Mr. Piser. I think taxpayers would be delighted if they were convinced that this concept would save them money. Certainly, one poke that somebody could take at the arrangement on the surface is that we are bringing in yet another firm that is going to add another fee to the whole project.

My understanding of what you do is that, in the end, it will end up saving a lot of money. How do you charge your fee, and does it differ in a GMP situation as compared to a contract lump sum or the standard construction management approach?

Mr. PISER. Our fee can be structured any number of ways. It can be a fixed fee based on a definitive scope of work. It can be on an hourly basis. It can be a percentage fee. We do all kinds of fee arrangements depending upon what the client is really more comfortable with, but I think the significant question here is, is there a fee differential if you are in a risk position as opposed to a straight CM with no risk, no guaranteed price, and the answer is, yes, the fees will generally be anywhere between 50 percent and 100 percent higher if we're in a risk position. I think it is the traditional risk-reward relationship that you have to analyze in any business. So, yes, we do charge higher fees.

More important, I guess, is the question of, are we just any layer of fee structure in a building project, and do we really provide any substantive benefits. I have to tell you that I wouldn't be sitting here if I didn't truly believe that we do. I think the private sector will be the testimony to the fact that we do provide the results that the owner and the client is looking for; otherwise, the business would not be as successful as it is and growing every year because clients are becoming more aware of the process and the benefits that can result from it.

Mr. Cox. I wonder if I might ask you for your sense of what Federal requirements and regulations there are that might raise the cost of building a Federal building, as against a private one and, in specific, if you could make reference to your experience with the Chicago Federal Building I would appreciate that.

Mr. PISER. The Chicago project is a job that we are in the middle of, and we are very proud of what is going on there. I really haven't sat down to try to analyze on a system-by-system basis the relative cost of a private-sector building versus what we are actually building.

I know the square-foot cost is higher. It is higher primarily because of the requirements, as I mentioned earlier, about some of the safety—painting and identification requirements.

There is substantial added flexibility in that building for future changes, which a private project would not be putting up front. Granted, they may pay for it, but they would pay for it later, and they would pay for it only if it is necessary. So there is tremendous flexibility built into that building with respect to floor-loading requirements; for example, the quantity of air that's available in the building, electrical capacity, elevator capacity, lighting, and so on.

So, if you were to take each system and look at it in a direct comparison to a project that we would build across the street, for example, you would see significant differences. Those are first-cost differences.

Now, when that building is analyzed over it's 30-year life, will it be more efficient and more economical than the spec building across the street? Maybe it would, yes. I assume that is why those cost factors are built up front.

Mr. Cox. Are there any differences on a common-denominator basis, that is to say where buying exactly the same thing nongovernment would mean less expenses?

Mr. **Piser**. I haven't experienced any of that. When you deal with the subcontractors, some of them will say—elevators, for example--we just bought elevators down the street, but this one has all kinds of requirements. It's a GSA spec—blah, blah, blah—and it is going to cost more money.

Well, a lot of that is nonsense. As part of our negotiation with these particular subs, we said, "Look, you're not dealing with the federal government. You are dealing with us."

We were successful in negotiating the correct price. I think there is a mentality in the marketplace that says to subcontractors, there is going to be more red tape involved, more requirements for this and that; and, therefore, they have to put premiums on some of the jobs, and a lot of it is just historical.

Mr. Cox. Thank you very much.

Mr. Bosco. Thank you. Mr. Inhofe, would you like to ask a question?

Mr. **Inhofe**. Yes. Mr. Chairman, since I'm not on your Subcommittee but am on the parent Committee, I appreciate your allowing me to come and attend.

I have more than just a passive interest. For a number of years, I was Mayor of Tulsa. In one of the bond issues, well, actually, it was a one-cent sales tax increase for capital improvements, we rebuilt our entire water and sewer system including the plants. It comprised 55 contracts, of which 48 involved massive cost overruns. This is a serious problem. If you weren't concerned just about the amount of money, the budgeting is a serious problem.

First of all, I think I can probably answer Mr. Petri's question better than the answer he got. That is, the reason that they just don't go ahead and hire someone to do this is because government can't afford it. We tried that, and we found that the individuals that were available to assume that role with the proper experience were not available on the market that was affordable by the certainly modest city government in Tulsa, Oklahoma.

Mr. Piser, maybe I misunderstood you, but I think you said that, on most of your government projects, you did not use the GMP method of construction management?

Mr. PISER. Yes, that's correct.

Mr. INHOFE. I would think, knowing the necessity for budgeting, and for that reason alone, that that would be a feature that would be really in demand on public projects. Is there some reason I'm not using the right logic here?

Mr. PISER. I think the program is really just beginning to get started in terms of the concept. So, fortunately, we have been involved in three. We were successful in Chicago. We are still competing on the Oakland project. And we were not successful on the Foley Square, New York project. But it is becoming more of a factor and, hopefully, we will continue.

Mr. INHOFE. Mr. Stewart.

Mr. STEWART. Our experience is with the guaranteed-max approach. Where we are moving our concepts and our philosophy in this area, if we can define the project fairly effectively, i.e., it's a standard commercial-grade type of an office building which we would be housing anybody in, much like a commercial developer might put up, we would tend to go with a lump-sum approach; not a guaranteed max but to ask the developers on a design/build basis to come to the table and give us your best shot and give you a lump-sum contract to deliver that building, and they would have responsibility to delivery it within that contract.

Where our projects are more difficult to define and more complex and not as a standard of a product in the marketplace—courthouses, more complex types of buildings with various special features within them—we would tend to go to the guaranteed-max approach.

What we found with the guaranteed max is, that the level of definition of the project requires the contractor to come to the table and cover his risks, because of the unknown factors, rather substantially, so that guaranteed max tends to be a number of which you hope to come down.

With a guaranteed max, what goes along with that is, as we bid it out, we are going to share savings.

Mr. INHOFE. Mr. Piser, when you do these projects, what has been your experience on the GMP basis? What percentage of those is less than that? Are we talking about the vast majority of them, or occasionally?

Mr. PISER. Our track record is, I would say, 98 percent. We have had one or two, that I can recall, where we have had cost overruns. Our process is a little bit different than Mr. Stewart just described in that he is suggesting that the guaranteed price be established before the job is bid out, whereas we establish a guaranteed price after the majority of the job is bid out. So there is a significant difference there.

Mr. INHOFE. I notice in some of the material that I was reading that there seems to be a difference on what percentage of the private sector, as opposed to the public sector, is now using construction management on the jobs that are being let at the current time or in the past five years or one year, any time frame—any reference is fine. What percentage of jobs are being let through the CM basis as opposed to the conventional bid in the private sector compared to the public sector?

Mr. **Piser**. I don't have any specific figures on this but, from our marketing studies, and again I want to focus primarily on the building end of the business as opposed to other type facilities, but I would say it's about 80 percent that go with construction-management route as opposed to lump-sum bidding.

Mr. **Inhofe**. In the private sector?

Mr. **Piser**. In the private sector, yes.

Mr. **Inhofe**. What about the public sector?

Mr. **Piser**. That would be 20 percent.

Mr. **Inhofe**. Do you agree with those approximate figures, Mr. Stewart?

Mr. **Stewart**. I guess, we have to get definitions down because he's working with a different definition than I'm used to dealing with. We are using on our projects construction management services on 80 percent of our work. If you are talking about Mr. Piser's approach, where I as a construction manager am bidding the project for you and replacing the general contractor, we aren't doing that.

Mr. **Inhofe**. Mr. Piser, I was a little surprised to hear your answer to Chairman Bosco's question, when he had talked about the perception that is out there by the public that government construction costs more than private constructions. I was surprised that you agreed with that, that it seems to. What could be done in the future to bring them down to a parity so that public construction or government construction would not cost more than private construction?

Mr. **Piser**. I guess, really, the process is probably part of the solution. Public bidding has become a business of trying to submit the lowest number at a specific time, on a Friday afternoon—whatever the bid time is, and then if you are successful, to attempt to maximize your profits by the various techniques of change orders and claims.

I think that alone contributes to the problems of ultimate cost and time overruns that occur in the public-sector projects, as opposed to the private-sector approach, whereby the private-sector approach is that we as a team want to deliver a building within a certain budget and within a certain time frame. We as a team work together to accomplish that.

It is an entirely different philosophy and approach to achieving a finished product. I think the solution would be to, obviously, go more towards that approach as opposed to the traditional.

Mr. **Inhofe**. You commented a minute ago that most of yours is building. A lot of the work that is going to be done under the jurisdiction and supervision of this Committee is going to be renovation work, also. Do you get involved in renovation work?

Mr. **Piser**. Yes, we do a substantial amount of renovation work.

Mr. **Inhofe**. Could you name a couple of sizable projects?

Mr. **Piser**. We have been working at the New York Stock Exchange for over 20 years doing continual renovation, without one lost day of trading, and very complex scheduling, and very detailed and highly technical work. We are doing work in San Francisco now on a federal government job. We are doing major renovations in New York on Fifth Avenue—745 Fifth Avenue, the Pan Am Building lobby. We did the addition to the Sears Tower lobby. I couldn't begin to recite the number of jobs. Twenty-two State Street in Boston.

Mr. **INHOFE**. So you think the benefits that you feel are characteristic of construction-management approach would apply to renovation as well as building?

Mr. **PISER**. Absolutely.

Mr. **INHOFE**. Thank you.

Mr. Bosco. Thank you very much. Gentleman, we appreciate your testimony. We are going to move on with our mark up.

I had one final thought, though, and that is that we are now going to be experimenting with different financing. I'm not sure it is unheard of financing, but we consider it to be different, and it will enable us to move forward with some very big projects.

In the course of doing the legislation for that, I would certainly be open, and I think the rest of the Subcommittee would, if there are changes that we need to make in the law that would enable us to be more competitive, to keep these costs down, I think we should be considering that.

It seems to me that there are two situations: one where the government leases a building back and the private sector, in effect, builds it; and the other where the government builds a building. The government is going to pay for both of them and I think that we should try to bring into much more conformance what we are paying in each case.

We are in this odd position where we have a distinction without a difference and, yet, it's my impression that with the one building that the government builds, we are more likely to run into a whole set of problems that we might not get in the other one that we buy.

So I think maybe over the next couple months we might want to think of ways we can minimize that difference. Perhaps, Mr. Piser, you and your colleagues in the industry and, certainly, Mr. Stewart, if you have suggestions on that, we would like to hear them.

Thank you very much.

Mr. **PISER**. We appreciate it very much. Thank you.

Mr. **STEWART**. Thank you.

Mr. Bosco. We appreciate you coming all the way from New York.

[Mr. Piser's and Mr. Stewart's prepared statements follow:]

TESTIMONY OF DONALD H. PISER, CHAIRMAN, PRESIDENT AND CHIEF EXCUTIVE OFFICER, MORSEDIESEL

Good morning Chairman Bosco and members of the Subcommittee. My name is Donald Piser and I am Chairman, President and Chief Executive Officer of MorseDiesel, a construction management and consulting firm headquartered in New York City. I am pleased to present testimony before you today on the construction management concept as it relates to construction in both the private and public sector. If appropriate and desirable, I would like to summarize my testimony and submit my full written testimony for the record.

MorseDiesel is in the business of managing construction. As construction managers, we have proven to a broad spectrum of corporations, developers and institutions that they can control the outcome of their building projects regrdless of their complexity. We have excelled by developing state-of-the-art methods and techniques for controlling the construction process and by applying this expertise consistently from the inception of a project through its completion.

MorseDiesel has had extensive experience acting as a construction manager and consultant in both the private and public sector. As an example, MorseDiesel has acted as a construction manager on, among other projects, the Philip Morris World Headquarters in New York City, the Coca-Cola USA Tower in Atlanta, the Pan Am Building in New York, the Sears Tower in Chicago, the National Gallery of Art's East Wing, the Manhattan House of Detention in New York City, and currently, the Chicago Federal Building in downtown Chicago. In addition, MorseDiesel has had extensive experience acting as a consultant on large renovation projects. These have included the renovation of the New York Stock Exchange and, currently, the Philip Burton Federal Building in San Francisco.

Simply put, construction management is a means of providing clients representation and control of their construction projects. Hired by the owner to act as his eyes, ears, and brains in the building process, construction managers control the construction process to assure that the outcome is in the owners best interest. Construction management brings techniques for control of costs, schedules and quality to all construction projects, whether they be large or small, straight-forward or highly complex. We are in the business of communication and teamwork. To be successful, construction managers must practice a teamwork philosophy. The project team must be willing to share information, critique each others work in a constructive fashion, welcome peer review, and truly look out for the project's best interest.

All this said, one might wonder exactly how a construction manager controls the construction process. The concpet of construction management is not easy to explain. As one commentator said, "a construction manager is whatever his agreement with the owner obligates him to be." Construction mnagement services, however, generally fall into two broad categories of responsibility: consulting for the client during the initial programming, or pre-construction phase, and constructing as a manager or contractor. A construction management firm is able to have the greatest impact on control when it is given the responsibility of overseeing, on behalf of the owner, both the preconstruction and construction phases.

During the pre-construction phase, a construction management team will establish milestone budgets and schedules, review design for constructibility, and conduct value engineering. The project team agrees upon a definitive project budget and schedule tied into a specific program. The prime function of the construction manager during preconstruction is to keep the client fully informed as to the progress of design vis-a-vis the budget and schedule and to provide that client with opportunities to save time and money. Value engineering is, as practiced by MorseDiesel, an organized and systematic approach to examining each facet of the building—whether it be architectural, structural, mechanical, or electrical—essentially on a systems basis. The primary goal is to increase the value that the owner receives by examining and testing first cost, life cycle cost, performance and compatibility with the intended use of the building. The project's quality is frequently enhanced while staying within the owner's required project budget. This cannot be accomplished in a vacuum. It is the result of intensive team driven studies and workshops, with everyone on the team—the owner, the architects and engineers, the specialist consultants and the construction manager—working together to achieve the goals initially established while maximizing value.

Also during this pre-construction phase, a construction manager will forecast cashflow; prepare, analyze, and make bid package recommendations; and issue monthly executive reports to the owner and other key members of the project team.

To summarize, in the pre-construction phase we provide: team leadership; cost information and control; schedule information and control; constructibility reviews; document coordination; and value engineering.

Once pre-construction has been completed, the project could go out to bid in either one of three ways: a conventional construction management approach, a construction management approach with guaranteed maximum price (GMP), or a general contracting lump sum. Whichever route is chosen, a construction manager can provide services either as a consultant, an owner's agent, or as a construction manager.

A significant advantage of the construction management approach, as utilized in the private sector, is the construction manager's ability to pre-qualify contractors, to examine their workload and manpower availability, and require them to coordinate their work fully with others.

During the construction phase of the project, the construction management team typically is responsible for:

Assuring that coordination exists between the owner, the architect, the various contractors, and all the local municipal authorities, governmental agencies, and utility companies involved in the project;

Interpreting the meaning and intent of the contract documents, ascertaining the architect's interpretations, and transmitting such information to the appropriate contacts;

Reviewing the adequacy of the contractor's supervision and, when supervision is found to be inadequate in any way, directing that the necessary action be taken by the contractors involved;

Overseeing the submission of all shop drawings, composite shop drawings, coordination drawings, and brochures and materials samples, and instructing the contractors that the submissions must comply with the project's requirements;

Coordinating the work of all contractors until final completion and acceptance of the project by the owner, including comprehensive final inspections, and ensuring that the materials furnished and work performed are in accordance with the contract documents;

Reviewing and approving subcontractors' delivery schedules, material lists, shop drawings, samples, and the like;

Evaluating all change orders for justification and time and cost impact. The manager's on-site team will minimize the impact of any changes and may well be able to suggest alternatives that have zero cost and time impact;

Maintaining a scheduling system to monitor the progress of the work and expediting materials and equipment throughout the course of construction;

Providing a detailed and ongoing review of cost-to-date and cost-to-finish status by providing the owner with detailed monthly reports that enable the owner to know precisely where the project is at a given time and what will happen in the months to come.

The construction management function is not always provided by a construction management firm. Depending on whether he possesses the necessary expertise and management capabilities to adequately oversee a project, the owner may actually act as a construction manager. Likewise, if a design/engineering firm or a construction firm has these capabilities, in addition to their normal design/engineering or construction services, they too may fulfill this function.

However, construction management as it is practiced today is very much a specialized field. We manage the entire construction process, from inception through completion. Combining the knowledge gained from hands-on construction field experience with that of managers who have persevered in the application of management systems and techniques to construction, the professional construction manager knows how to both plan during design and execute in the field.

Above all, the professional construction manager knows how to think like an owner and therefore how to represent one. Every alternative that is recommended, every contract that is negotiated, every change order that is issued, every inspection that is made, and every payment that is authorized is done as if the professional construction manager was standing in the owners shoes. What's more, a professional construction manager is free from any conflicts of interest that might exist between an architect/engineering or construction firm and the owner.

The cost savings that accrue to the owner as a result of construction management participation clearly make the relationship worthwhile and profitable. Cost savings are likely to occur, both directly and indirectly, through a construction manager's ability to:

Bring on-site management control of the job hour by hour, which results in swift resolution of field related problems and decreases the likelihood of change orders;

Require contractors to focus upon agreed schedules, manpower requirements and quality standards;

Coordinate the many subcontractors' schedules and performance. The construction manager does this by literally building the project on paper before field activity commences; and

Provide a project team who have specific and relevant skills for each project. This is vital to the project's success.

With respect to MBE-EEO requirements, a construction manager can be extremely effective in implementing the required goals by working with the contractor in the marketplace.

In the early 1970's, the Federal Government experienced problems with the implementation of the construction management concept. These problems resulted from, among other things, the ability of the Federal Government to delegate authority to a construction manger, the contract arrangement, and the Federal Government's funding structure. This resulted in the government not realizing the benefits from construction management that the private sector had realized.

Despite this unsuccessful venture into CM use in the early 1970's, however, the General Services Administration (GSA) and other Federal agencies charged with responsibility for construction, remaining determined to assure that projets come in on time and on budget, have begun experimenting with and implementing new construction concepts that suit particularly well the use of the construction management concept.

The design/build concept is now seriously being looked at, and indeed utilized, by GSA and other Federal agencies as a means to better control the construction process. Traditionally in construction projects, the owner hires an architect or engineer to design the project and to prepare the plans and specifications which communicate the design to the contractor. At that point, the owner selects a contractor who would contract directly with the owner to construct the entire project. The design/build concept, however, is a contractual arrangement whereby the owner contracts with a single entity for the design and construction of a project, rather than contracting for the designing and constructing separately. The design/build concept thus provides the Federal Government the opportunity to take particular advantage of construction management to help assure that public building projects come in on time and on budget.

The development team for the Chicago Federal Building, which includes Morse-Diesel, is utilizing the design/build concept. We are proud to report to the Subcommittee that the project is progressing on time and on budget. We are confident that this project will serve as an example of how the concepts of design/build and construction management can work together to assure that Federal projects come in on time and on budget.

I appreciate the opportunity to present this testimony before you here today. I would be happy to answer any questions you might have on the construction management concept.

STATEMENT OF JAMES B. STEWART, DIRECTOR, DESIGN AND CONSTRUCTION, OFFICE OF REAL PROPERTY DEVELOPMENT, GENERAL SERVICES ADMINISTRATION

Mr. Chairman and members of the subcommittee, it is a pleasure to appear before you this morning.

I have been asked to discuss the use of construction managers in the General Services Administration. Our current policy calls for the use of construction managers in two categories. The first is project specific construction managers for use on projects exceeding $10 million, the second is an indefinite quantity (IQ) term construction managers for projects less than $10 million. As of February of 1989, 13 major projects were being managed by using project specific construction managers and 11 IQ term construction managers.

The construction manager is to assist GSA project managers in insuring that the project is completed on-time, within budget, and with a high degree of quality. The construction manager is intended to be used as cradle-to-grave support contract providing the following services:

Additional professional expertise that will supplement the existing GSA workforce;

Input on design quality, constructibility, technology and materials, and marketability of all projects;

Schedule control and tracking assistance as well as project cost validation and cost control; and

Inspection and construction contract administration.

Construction managers are an essential element in the GSA construction delivery process and instrumental in assuring construction with a high degree of quality, delivered in a timely manner, and is cost beneficial to the Federal Government.

This concludes my formal statement, and I will be pleased to answer any questions that the subcommittee might have.

[Whereupon, at 11:20 a.m., the Subcommittee adjourned, subject to the call of the Chair.]

INTERNATIONAL CULTURAL AND TRADE CENTER

THURSDAY, MARCH 8, 1990

House of Representatives,
Subcommittee on Public Buildings and Grounds,
Committee on Public Works and Transportation,
Washington, DC.

The subcommittee met, pursuant to notice, at 9:33 a.m., in room 2253, Rayburn House Office Building, Hon. Douglas H. Bosco (chairman of the subcommittee) presiding.

Mr. Bosco. I would like to call this hearing of the Public Buildings and Grounds Subcommittee to order.

Today we will focus on the International Cultural and Trade Center in the Federal office building complex downtown.

Mr. Petri, would you like to share some of your thoughts with us as we start our hearing?

Mr. Petri. Thank you, Mr. Chairman. I would like to join you in welcoming the various witnesses, including our House colleagues who will be testifying before the subcommittee this morning.

The primary focus of our hearing, as the Chairman has indicated, will be to review the costs of the development of the new building on Pennsylvania Avenue in the Federal Triangle, as well as the program of the International Cultural and Trade Center, which is to be located in this facility.

When construction of the building was authorized in 1987, project costs were estimated at $362 million. Obviously, this estimate was at the very least a best guess since no real design or planning had been completed. However, since costs now stand at nearly $740 million, I think it is important that the subcommittee take this opportunity to look at the reasons behind this large increase.

I am also interested in exploring in more depth the various programs of the International Cultural and Trade Center. The commission, which is to manage the center, has spent much time and expense studying this issue, and this morning I am interested in learning specifics in terms of what the reaction of the foreign community has been, details on plans for the performing arts portion of the center, anticipated revenues and expenses, as well as other aspects of the trade center program.

Finally, another issue which is still outstanding is that of the Federal housing plan. Representatives from the U.S. Information Agency, a prospective tenant of the building, are here today to present their position on the tenancy question.

I would ask unanimous consent that a statement by the ranking member, John Paul Hammerschmidt, be included in the record at this point. Thank you.

Mr. Bosco. Without objection.

[Mr. Hammerschmidt's prepared statement follows:]

Statement of Hon. John Paul Hammerschmidt

Mr. Chairman, I want to join you in welcoming our many witnesses this morning. The focus of this meeting is continued oversight on the Federal Triangle development project, which was authorized in 1987. The Pennsylvania Avenue Development Corporation, the General Services Administration, and the International Cultural and Trade Center Commission have been working diligently on this project and will report on its current status.

The subcommittee has periodically conducted hearings to review the latest information on project costs. We now have a more definite figure on the development costs and, hopefully, we will see what elements are included in this final figure. The subcommittee will also examine more closely the programs of the trade center. Since passsage of the Federal Triangle Development Act, the International Cultural and Trade Center Commission has continued to develop and refine its programs and activities. This morning we will take a closer look at the specific plans for the operations of the center as now contemplated by the Commission.

I look forward to an interesting and informative subcommittee hearing this morning.

Thank you, Mr. Chairman.

Mr. Bosco. Now we will get into the matters related to the International Cultural and Trade Center. I see Mr. Austin, Senator Percy, Mr. Hauser, Mr. Brodie and Mr. Roth.

We will begin with Mr. Austin and then hear from Senator Percy.

TESTIMONY OF A PANEL CONSISTING OF HON. RICHARD G. AUSTIN, ACTING ADMINISTRATOR, GENERAL SERVICES ADMINISTRATION; CHARLES H. PERCY, CHAIRMAN, INTERNATIONAL CULTURAL AND TRADE CENTER, ACCOMPANIED BY KENNETH R. SPARKS, PRESIDENT, ICTC; RICHARD A. HAUSER, CHAIRMAN, PENNSYLVANIA AVENUE DEVELOPMENT CORP., ACCOMPANIED BY JAY BRODIE, EXECUTIVE DIRECTOR, PADC; RICHARD L. ROTH, DIRECTOR, OFFICE OF ADMINISTRATION, U.S. INFORMATION AGENCY, ON BEHALF OF BRUCE S. GELB, DIRECTOR

Mr. Austin. Mr. Chairman, members of the committee, thank you for the opportunity to be here. I have just a very, very brief statement to make and then will be prepared to answer questions. If I may, Mr. Chairman.

Mr. Chairman, members of the subcommittee, thank you for the opportunity to appear before you today regarding the International Cultural and Trade Center.

The General Services Administration believes that this project accomplishes three worthwhile objectives. First, it provides for the conversion of an under-utilized property to a critically needed project. Second, it provides an opportunity to consolidate government activities in the most economical manner. Third, it will contribute to the continued revitalization of Pennsylvania Avenue.

Economic considerations and the opportunity to relocate scattered government operations currently housed in high-cost leased space into a single, government-owned facility were the major factors in attracting GSA into this project. This project offers GSA the opportunity to avoid leasing more than 1.2 million square feet of space in downtown Washington.

The original proposal called for the consolidation of the Department of Justice from some 20 leased locations throughout Washington, D.C. into 1.1 million square feet of the ICTC. However, as time has gone on and as the project evolved, other housing options were considered. Today we are proposing to house 350,000 square feet of the Department of Justice, more specifically components of the Department of Justice international interests, in the ICTC.

We will meet DOJ's additional requirements by providing 280,000 square feet of the Ariel Rios Building and by acquiring an additional 400,000 square foot facility. The Department of Justice has agreed to this alternative proposal for meeting their consolidation requirements, and we are moving forward with them.

The reduction in the Department of Justice requirement has allowed us to program approximately 600,000 square feet in the ICTC for use by the United States Information Agency. The current housing plan for the ICTC complex is as follows: ICTC use, 500,000 square feet, and that is provided, Mr. Chairman, by the enabling legislation, the ICTC Development Act itself.

Other use and tenants: U.S. Trade Representative, approximately 50,000 square feet; the State Department, approximately 100,000 square feet; the Woodrow Wilson Center, approximately 50,000 square feet; Agriculture, approximately 32,000 square feet; the Department of Commerce, 20,000 square feet.

And if you notice, Mr. Chairman, that is asterisked. The reason it is asterisked is that there is ongoing discussions that Commerce may well find itself in the next category, which is identified as the one-stop center, which will be made up of various Federal agencies, such as AID, SBA, a number of small entities like that. Through discussions with the ICTC Commission, GSA would retain control of the space since it will be used by other Federal agencies, however, oversight of that space would be assigned to the ICTC, i.e., for composition of that area.

The Department of Justice, approximately 350,000 square feet; U.S. Information Agency, approximately 628,000 square feet; joint use space, approximately 100,000 square feet. This category, Mr. Chairman, is made up of requirements which will be shared both by the ICTC and the Federal agencies within the facility, to include a conference center of approximately 25,000 square feet, a training center of approximately 10,000 square feet, a language center of approximately 10,000 square feet, a child care center of approximately 13,500, a physical fitness center of approximately 15,000 square feet, and miscellaneous space of approximately 26,500. Mr. Chairman, miscellaneous space is made up of other areas such as vending machine areas, a medical center, additional conference rooms which would be spread out throughout the center, very small conference rooms. Total occupancy is approximately 1,360,000 within the Federal side, and an aggregate of 1.86 million square feet overall.

There is a concern which has just recently come to our attention, and we need to have further discussion with Senator Percy and the ICTC board. It relates to a request, which has at this point been unallocable, for an additional 15,000 square feet for administrative offices for the International Cultural and Trade Center Commission itself. My legal staff has advised me that they believe that there are some constraints on our being able to provide that space inasmuch as the enabling legislation limited the ICTC to 500,000 square feet. And ostensibly, we would be expanding that by an additional 15,000 square feet. However, I must say also, Mr. Chairman, Mr. Sparks and the ICTC make a substantive argument that they are also considered a part of the Federal Government and, therefore, should have space within the GSA portion. We need to have further discussion in that area and certainly would welcome any congressional interest or advice that might be provided.

If I may proceed, Mr. Chairman. GSA has been advised that the latest estimated cost for the project is approximately $738 million, exclusive of financing costs.

In our desire to accommodate the total consolidation requirements of USIA, we have examined several proposals for potential expansion of the development. Because of the construction techniques to be used, the developer has determined that it is possible to expand the below grade space by an additional 87,000 square feet at a cost of approximately $15 million. If this alternative were pursued, the gross size of the building would exceed the 3.1 million limit provided for by the Act, and we would need substantive legislation to provide for that additional space.

Why do we suggest this, Mr. Chairman? Because the U.S. Information Agency has advised us they need approximately 800,000 square feet to consolidate within the ICTC. We are running approximately 170,000 square feet short of that goal. If we are to consolidate the USIA, we are going to have to identify additional space within the facility. The option which most readily meets that requirement is to provide for the additional 87,000 square feet, and then we would need to sit down and look at the housing matrix one more time to see who ultimately would occupy the facility. That would be done in conjunction with USIA, the other agencies, GSA and certainly the ICTC.

Mr. Chairman, while your invitation requested our views on the staff working drafts of amendments to the Act, we understand that the drafts are undergoing revision. We would be prepared to comment on those drafts at such time as you may desire after we have had an appropriate opportunity to review them.

We at GSA look forward to continuing to work with the subcommittee and the commission to bring this project to fruition.

Mr. Chairman, this completes my comments, and I would be happy to respond to any questions that you might have.

Mr. Bosco. Thank you very much.

Senator Percy, do you want to go ahead? I think we will entertain all the questions at one time.

Mr. PERCY. Thank you very much, Chairman Bosco, Mr. Petri and Mr. Lewis. I am delighted to be with you again.

My comments will be relatively brief considering the body from which I came. [Laughter.]

I speak as the Chairman of the United States International Cultural and Trade Center Commission on behalf of all my fellow commissioners, one of whom, Don Brown, is here today. He was in on the origin of the idea of the creation of an international cultural and trade center. He has been involved with this project for a long time, as has Mr. McPherson, our Vice Chairman from the beginning.

I am very pleased to be with you and particularly to be with Pennsylvania Avenue Development Corporation, USIA and GSA to report on the progress that we are making now with the center. Considerable progress has been made since we last met together.

I would like to take the opportunity to thank the committee and the staff, for your continuing assistance to our commission and your steadfast support of the monumental project that we are undertaking. Strong bipartisan support for ICTC has been critical for the project's success to date.

Our commission is very concerned about one major problem, America's persistent trade deficit and, of course, we are all concerned about our growing budget deficit. The United States imports, for instance, $12 billion more a month than we export. This raises national security concerns. American has been increasingly dependent on foreign loans to finance this debt. We as a nation are forced to borrow. Our Treasury Department must borrow from Japan, Germany, and other creditor countries $10 billion to $15 billion a month, month after month. And this is a matter of deep concern not only to ourselves and what it does for our security and our position in the world but it is also increasingly a topic at international conferences all over the world. I constantly have people talking to me from other countries about how we are addressing this problem in the United States.

The complex we plan to construct is a unique combination of cultural and trade components with the parallel missions of improving America's trade position in an expanded world economy and promoting greater understanding in this country of other cultures.

I can only point out when I came to the Congress in 1967, we were in the midst of a great debate on trade I agree with my friend Senator Paul Douglas, my professor at the University of Chicago against protectionism and for freer trade. But we violently disagreed on the Vietnam War, however. I said we did not adequately understand the culture of that part of the world. It is easy to get in and very hard to get out of Vietnam, and it almost tore this country and this city, certainly, apart. We just did not know what we were doing out in that part of the world at that time, and what our involvement would do to us.

We cannot continue to have that sort of myopic view in a world that is as demanding and as exacting as that one we live in today. We cannot fail to understand other cultures. Our inward view is one of the reasons we are not doing as well as we should in trade. Only 2,000 companies in America of the hundreds of thousands that should be exporting are responsible for 80 percent of our foreign trade. No wonder we are not engaged the way Japan is, the way Germany is, the way many other countries are enagaged.

We simply have to find a way to encourage more companies into exporting, It is going to take the work of our State governments, federal agencies, and associations. Every single state should be more export-minded. I think some of our governors are more export-minded than many of our corporation heads. And I am talking about exporting more and more with the people I have grown up with all my life in corporations. I am going later on today to a two-day meeting of 40 corporation heads of the largest companies in America. And I will be talking about exporting with them, doing more of it. But I am talking to small business and medium size business all over the country with conferences that SBA is sponsoring to get more companies involved in this effort.

That is why we are building this monumental building which will settle the problem that Presidents have shared with the Congress for 25 years since John F. Kennedy: what do we do with the largest tract of vacant land the US Government has left in Washington, DC? And never could we agree on what to do until this idea came up, and Congress really deserves a great deal of credit. I can say that because I was not in the Congress when it and was unanimously passed in 1987 by the House and Senate and proudly signed by President Reagan.

This idea is one of the biggest and best ideas we have ever had in America. We are going to set a pattern for the world. Everywhere I go, people are excited about the creation of this center.

ICTC will act as a gateway to the services, information and resources of the Federal, state and private trade agencies and associations. Its facilities will be available to these entities working to improve our trade balance but in the right way, not the wrong way.

For 40 years I came down and testified before the House Ways and Means Committee and the Finance Committee of the Senate. I can remember holding a Bell and Howell camera up and saying, "I do not care how many of these I sell in Peoria, Illinois behind a 40 percent tariff that is keeping out our friends and allies abroad." I said, when testifying against the American Photographic Manufacturing Association that supported high tariffs, "I want to know how many I can sell in Hong Kong; in a free market. Then I know when I am competitive." And we won that battle in the Eisenhower administration by two votes in the House, one of them from Peoria, Illinois. We won the battle that Eisenhower had long waged for freer trade.

I have been a free trader all my life. Our commission does not want restrictions, barriers and artificial subsidies for business. We do not want that. We want America to be competitive, but we want to say to these countries that need trade rather than aid, we will take your imports. The more well off you become, the more of our exports you can use. We have got to be able to reach those markets in Pakistan and India and all over the world. In a couple of weeks I will travel to India to open a plant that we have worked on as a joint venture for five years. This is the kind of arrangement the cultural and trade center can help this country make around the world and in the United States.

We will have educational programs that will illustrate trade's role in creating a more prosperous and stable world and will help Americans understand the values, traditions and aspirations of other cultures, which are essential to expanding international trade. And I will say this. No other institution in the world, including the 204 world trade centers around the world and throughout the United States, not one of them, will compare with what you have authorized and have been supporting. No other institution will have ICTC's capacity to mount in one location exhibits, film festivals, IMAX presentations performing arts events, seminars, and retail promotions around these themes.

Yesterday we met with the senior officials in the Commerce Department and the Washington representatives of major US corporations to describe how we are going to work with Commerce, with the U.S. Trade Representative, with the Small Business Administration, and other public and private trade entities.

On behalf of ICTC, I appeared before you last November. PADC, in consultation with GSA and our commission, had just selected the Delta Partnership as the development team to build the center. Since then, all parties have worked diligently to finalize the development agreement.

Since the selection of the development team, PADC, GSA and our commission have worked closely with the Delta Partnership. We have held several meetings with the architects and construction teams to refine the project's design to meet the center's program objectives.

Last fall and winter, ICTC met repeatedly with our advisory committee experts to develop the best programs for the center. We are gratified with the results of those efforts. Now we are working with PADC, GSA and the development team to ensure that the building design is efficient, aesthetic and artistic and accommodates the programs necessary to fulfill the center's mission. We are very pleased with our collaborative relationship with the development team and feel confident that it will continue throughout the construction of the center.

To this point, the commission has focused most of its limited resources—I say really limited resources. I have never worked with a group of people more dedicated. I used to say that the public does not understand how hard Government people work in Washington in both the executive and legislative branches of Government. In my business life, I have never seen anything like ICTC. That tiny staff—some of them are working 12 and 15 hours a day, weekends and nights because we simply do not have adequate human resources to do the kind of a job imposed upon us—not imposed in any onerous way—by the Congress and the President in this bill. But we have very limited resources to develop the most appropriate program to meet our mandate.

And we are not waiting until the building is finished in 4 or 5 years. We are starting our programming right now. The budget crisis is here now. We are going to work on that crisis as a mandate. And both President Reagan and President Bush have assured us that they want us to start on this program because our objectives are the same as their objectives, to get this trade deficit down, to find ways for this country to become more competitive not in 1995 when we finish the building, but have a real running head start and start to see that trade deficit come down now. We have made some progress as a result of the work of several of the agencies of Government and many of the things that Congress has been doing. We need to develop appropriate programs to meet our mandate.

We are equally concerned with cost containment. Previous cost estimates were based on initial building concepts prepared for the competition. We are now dealing with the actual design. PADC has kept the project on schedule, and the commission has been exploring alternatives to stay within the space limitation. We look forward to continuing that process over the next few weeks to construct the finest building possible.

The building will not require appropriations. And when it comes back to the Government in 30 years, we are going to have the finest investment this Congress has ever made with a lease-purchase arrangement that PADC has worked out with our developers.

The Congress has required the center to be self-sufficient within two years of opening. Now, that is a mandate. We take that mandate very seriously. We intend to fulfill it and be self-sufficient at ICTC within two years of opening the operations. To achieve self-sufficiency, we must have a thorough business plan for each element of the center. We have shared with you and have given to your staff, preliminary reviews made by Peat Marwick on an organizational structure and by GA/Partners, a subsidiary of Arthur Andersen and Company, on economic feasibility. We currently have limited studies under way to update them. With additional resources, we could conduct many of the detailed development studies necessary to complete our business planning.

Mr. Chairman, we would like to thank you and the committee for your assistance in trying to resolve the Federal tenancy issue.

And I wish to thank the Attorney General for his understanding and reason. I tell you I was shocked, as I told you before. I had not the slightest idea when I accepted this responsibility. To put 1,300,000 square feet in the complex for the Justice Department to house criminal prosecutions departments or the Bureau of Prisons and then ask countries to put their cultural and trade offices in the building, you might just as well ask us to share space in Moscow with the KGB. Well, I think we almost did. [Laughter.]

Mr. PERCY. But it was just ludicrous, and I just cannot thank everyone enough who worked together—one solid year I put in—on that project to convince them the Ed Meese/Terry Golden memorandum of understanding would now be wrong for this project. It would devastate it. At the State Department, Deputy Secretary John Whitehead said it would destroy the whole concept of ICTC.

USIA is the right primary tenant. We pledged the Justice Department we would do everything to help them with these building plans. And they will be adequately provided for, without destroying the whole idea behind the ICTC.

I would like to thank you again for what you have done.

I do believe that USIA is the ideal primary tenant for the center. I have not found a single foreign or American, State government that would not agree with this. It is also the overwhelming opinion of the people I have consulted in the executive branch of Government.

The only problem we really have is that USIA needs 800,000 square feet. GSA has found to date about 640,000 square feet, and they are still looking for more. We have asked the developer to find additional space. That is in the works now.

Finally, I address the amendments in our enabling legislation which are before you for your consideration. To reiterate the substance of the amendments, they would first provide the subcontractors constructing the building with exemption from local taxes, consistent with other GSA projects.

The administration backs fully adding the Secretary of Labor and the Secretary of the Treasury to our Commission. After all, Treasury has a task force set up on competitiveness because they have got to borrow the money that the country has not earned. They should be with us talking about this project, watching the progress and being a part of it on the ICTC Commission.

And certainly if we are working with the business community, the Labor Department should be involved. They will be an important part of making us competitive today.

Also, we want to increase the quorum number commensurate with the increased number of commissioners.

We want to clarify that the term of a Presidentially appointed commissioner is six years; allow the appropriations process to set the ICTC budget and staffing requirements; provide for appropriate contracting procedures; and allow ICTC to operate as a nonprofit corporation, if it chooses to do so. We think that we should have that provision.

I want to comment on the amendment that would allow ICTC to operate as a nonprofit corporation. As we envision it, the center will be organized with approximately 10 separate business operations. To meet its requirement of being financially self-sustaining, we believe we should operate as a business and have the flexibility to make business and artistic decisions more readily than might be allowed in the government framework. Thus we consider the nonprofit structuring a vital option. The last thing any of us wants to create is a new bureaucracy or a large Federal entity to run the center.

And on the question of appropriations, the funds provided for initially were adequate at the time. However, now that we are organized and are able to project our needs for a successful outcome, we must have startup funds to support our development. If the funding and staffing ceilings are not removed from ICTC, irreparable damage will be done to this project. In late spring of this year, utility relocation and initial construction are scheduled to begin. ICTC must have the staff and resources to work with the development team to ensure that the building meets ICTC program requirements in the most efficient and cost effective manner possible. Changes to the design will be extremely costly if made later on. Furthermore, we must have the staff and resources to conduct feasibility studies and market research and develop program plans that are critical for the center's future viability.

I know of no other Government activity that is being asked to work under the conditions that we now face at ICTC. We would only ask you to take a look at it, and I cordially invite the congressional budget staffs, the OMB, anyone who would like to come in and see for themselves the conditions under which we are working and the task we have to accomplish with such very limited personnel and financial resources.

We hope you will agree that to continue the work to create a complex that is destined to be a monumental, multi-purpose, vibrant center of activity, an appropriation is a necessity at the earliest possible moment.

We are gratified that Senator Moynihan has pledged prompt consideration of these amendments by the Senate, and I know he is extremely pleased that you, sir, have taken the initiative in holding these hearings today.

Thank you for the opportunity to appear before you.

Mr. Bosco. Thank you very much, Senator Percy.

Mr. Hauser, would you like to go next?

Mr. **Hauser**. Yes, sir, Mr. Chairman. Thank you.

Good morning, Mr. Chairman, members of the committee, and thank you again for the opportunity to present testimony on the status of this very important project. And I am accompanied here again today by Jay Brodie, the PADC's Executive Director, who is well-known to all of you I believe.

I am pleased to report to you that working closely with GSA and with the ICTC Commission and staff, significant progress has been made since your last hearing in November of 1989.

A major milestone was met on February 12, 1990 when, after several months of intensive negotiations involving PADC, GSA and ICTC personnel, the Delta Partnership development team executed and delivered all required documents, including the development agreement and 18 other documents to the Pennsylvania Avenue Development Corporation. Mr. William Zechendorf's letter to me and my response are attached as exhibit 1 to my testimony for your further information. I have also brought along copies of the development agreement and related documents which we would be pleased to make available to the committee if you so desire.

In that regard, though, I have asked the PADC staff to continue our detailed review with GSA and ICTC of every aspect of the design, specifications and construction costs so that all parties will have a complete understanding of these important matters before the master lease and development agreement are executed by the U.S. Government.

Other areas of progress include the following.

The Commission of Fine Arts and the National Capital Planning Commission approved the design concept and made constructive suggestions about areas of further design study in the following schematics and design development stages.

In accord with our memorandum of understanding under section 106 of the Historic Preservation Process, we have requested and received advisory comments from the D.C. Historic Preservation Office and from the Advisory Council for Historic Preservation, and those comments are currently being reviewed by our staff and with the development team.

We have completed the review of the competitive submissions for the selection of a construction consultant team to assist the Government, and we are about ready to make a selection in that important area.

With respect to financing, following up the board's October 18, 1989 resolution, which is also attached to my testimony, we held a separate competition in order to pick a lead underwriter and comanager for the financing. Two intensive days of presentations were made, and that process is too about completed. We would be prepared to I think make a selection within 30 days and be prepared to go forward once the master lease has been signed.

In the important area of affirmative action, the developer and our staff have been meeting with many individuals and groups, including the District of Columbia Contractors Association, to identify every possible area of opportunity for minority business. We are confident that as a result of this effort, the project will be a model for minority participation.

As you may know, before voting on the development team proposals on October 18, 1989, the PADC board, consistent with its interest in maximizing every developer's affirmative action efforts, passed a resolution strongly endorsed by Arthur Fletcher who has been the chairman of the board's Affirmative Action Committee. A copy of that resolution is also attached for the committee's information.

Another important note, Mr. Chairman, the subcommittee should be aware that on March 1, 1990, the Saratoga Development Corporation, one of the unsuccessful teams in the development competition, filed suit in U.S. District Court challenging the selection process. The PADC board took a number of actions, including my June 12, 1989 memo and the board's resolution of June 21, again which are enclosed with my statement, to ensure the integrity and fairness of this process. And while we believe it would be inappropriate to discuss the particulars of Saratoga's complaint, the board made a reasoned decision based upon the selection criteria set forth in the prospectus, and we are confident that the selection process and the board's decision will withstand legal challenge.

I would add at this point that when we get into questions and answers, of which I am sure there may be many, that the committee be mindful of the somewhat sensitive position that we are in where we are being sued and at the same time we want to be fully forthcoming with the committee. I can only suspect that the plaintiffs are well-represented here and that this transcript will be a hot item.

With respect to the staff working draft of amendments to the Federal Triangle Development Act, we have made some comments in our testimony. We support the amendments, and I would just simply refer the committee to the views which are set forth there.

On the tenancy issue, the status has already been discussed by the prior speakers. Our major concern is that the specific space and specification needs of the tenants are provided for in the design without delaying the project.

Now, with respect to project costs, the project budget was included as a part of the development agreement submitted by the developer on February 12. Project budgets were submitted by each team in the competition based on their conceptual design. However, only after the development team was selected could Government and development team architects, construction staff and estimators meet to review each element of the proposed design and specifications and their respective costs, as well as discussing such important matters as the appropriate level of contingency funds.

The major elements of the project budget are set forth on page 7 of my testimony, and the most important there I think are the direct construction costs, which include a $20 million contingency, of $550,491,171, and a total project cost of $738,297,843. We will be pleased to get back into these in detail with you later. And a summary of these costs changes is also attached as an exhibit to my testimony. It is Exhibit 5.

Our financial advisor, Kidder-Peabody, calculated that beginning at project completion in 1994, the estimated rent payment of $25.70 per gross square feet, or $42.83 per occupiable square feet, will cover the total development cost of $738 million and financing costs of $128 million for the project.

In addition, it is important to keep in mind that the rental payment will remain constant for the 30-year life of this lease, from 1994 to the year 2024. At the end of the lease term and at no additional cost, the Government will own the building.

By comparison, net occupiable office rental rates in the recently completed Evening Star Building on Pennsylvania Avenue, translated into the same 1994 dollars as above, will range from approximately $39 to $56 per square feet.

The Congress envisioned that the ICTC/FOB complex to be much more than another office building. Within the ICTC portion of the complex, are 4 theaters, a 1,500 seat legitimate theater, a film theater to seat 500, a film theater to seat 300, and a so-called black box theater to seat 300.

Exhibit space of 130,000 square feet including a large screen IMAX theater-type space, the World Link Exhibit, the Walk-Around-the-World Exhibit and temporary exhibit space.

Retail space of 120,000 square feet, including merchandising and food service.

And an estimated 30,000 square feet for club and reception facilities.

Mr. Chairman, we are confident that an excellent ICTC/FOB complex can be developed within these cost parameters subject to interest rate changes that are, of course, beyond our control. In other words, any proposed future refinements to the program/design would be expected to occur within this cost framework.

Finally, Mr. Chairman and members of the committee, we believe that the board's decision in selecting the development team and design will fulfill the Congress mandate that the development "be designed in harmony with historical and Government buildings in the vicinity, reflect the symbolic importance and historic character of Pennsylvania Avenue and the Nation's Capital, and represent the dignity and stability of the Federal Government."

And that concludes my remarks, and we would be pleased to answer any questions you may have. To assist you, as you can see, we have brought a model of the winning team's design, as well as some other schematics and renderings.

Mr. Bosco. Thank you very much, Mr. Hauser. Mr. Roth, you're next.

Mr. Roth. Mr. Chairman, if I may submit my statement for the record, and just summarize briefly the reasons that USIA feels strongly that it should be consolidated wholly in a new location rather than continued to be fragmented. Is that agreeable?

Mr. Bosco. Certainly.

Mr. Roth. The major reason that USIA would like to be a tenant of the ICTC building is that it is, as Director Gelb has said, a hand-in-glove proposition between the goals and objectives of the ICTC center and of USIA in the trade and cultural area. And we believe that we would offer quite an opportunity for the ICTC's message both in the trade field and the cultural setting of U.S. interactions abroad to be carried throughout the world on our various media.

In recent years, the Agency media have been separated into different buildings around the city. That was quite practical given the way we operated because we sent films by pouch; broadcast radio by transmitter and we sent the wireless file by teletype throughout the world. We are now consolidating all of these into a single technological system using satellites to transmit all of our overseas programs, including TV pictures and sound. And certainly by the time of a move into the ICTC building, all of these activities would be transmitted by satellite through a single switchboard.

Secondly, it is a very costly proposition to take office space and to divide that office space into studios, broadcasting facilities, news rooms, et cetera. We have constantly done that throughout our history in buildings that were designed and built for other purposes. We feel that it would be quite economic and very useful to the Agency's efficiency and effectiveness if we were to be able to have that space designed for us from the very beginning.

A corollary is to take a period of five years and use it to plan effectively the design of and a move into the ICTC building. When this offer of space came, we first discussed it with GSA, we knew that we used something over 900,000 square feet in our current facilities. We now are going to have a better fix on this in the next few months. It looks as though it is coming out to 900,000-950,000 sq. ft.

We had pledged ourselves to fit the Agency into 800,000 square feet. That is a down-sizing of 100,000 and some square feet. Some of this will come out of the disappearance of duplications that are required when we are located in different buildings and spaces around the city. But some of it will come out of the efficiencies I mentioned in relation to the technological facilities: shared studios, shared transmission facilities, et cetera.

Therefore, we feel that it is imperative that a decision be made early, that this move be planned carefully and that we be looked at in terms of the overall proposition of how we can advance the goals and objectives of the ICTC. And we believe that now that a precise building has been chosen and the mission of the International Cultural and Trade Center has been worked out in some detail, that a reexamination of all of the potential tenants should take place, considering the criteria that are in the Federal Triangle Development Act for consolidation of agencies and the purposes for which the building was designed, rather than to continue to look at us as the last in some sort of line that was established to hand out bits of space in ICTC.

That, Mr. Chairman, summarizes my statement.

Mr. Bosco. Thank you very much, Mr. Roth.

I would like to begin in expressing my own confidence in the people who are doing this process. It is an enormous undertaking, one which no one would take lightly or agree to do without a lot of thought. And I think the very fact that so many decisions have been made and so much progress has been made, considering just last November many of these questions were up in the air, testifies to the competence and integrity of the people who are operating this project. And I for one hope that our committee will help you and not in any way attempt to get in the way.

I think the purpose of our examination of these matters is to create a public record that is clear and has integrity so that everyone in the country will know how big the building is going to be, who is going to be in it, and how much it is going to cost. I think we have all been uncomfortable with this cost issue because any number of figures have been thrown around. There are all kinds of changes being talked about, and we do not want to in any way give the impression that this building is out of control.

For that reason, I am glad to have a firm cost figure before us now. I am not surprised that it is what it is. I think that those who thought it would be $350 million or $500 million were in the dark ages as far as what it costs to build buildings of this type.

But I would like to ask some specific questions about how this building is going to be paid for and how all this is going to work.

As I understand it, Mr. Austin, you are going to sign a master lease for that part of the building which will house all of the non-trade center employees. Is that true?

Mr. AUSTIN. No, sir. I will sign a master lease on the entire building.

Mr. BOSCO. So, you will sign a master lease on the entire building that commits the GSA, and therefore the Government, to pay the mortgage.

Mr. AUSTIN. Yes, sir.

Mr. BOSCO. From that you will separate out that part which is apportioned to the various agencies that you are going to lease space to. And then are you going to lease 500,000 square feet to the ICTC, or are you going to lease each little block of space to foreign countries and whomever might be——

Mr. AUSTIN. No, sir. In the Federal side of the facility we would lease the individual space allocations to the Federal agencies. For the ICTC side, it would be a straight 500,000 square feet lease to the Commission. They would then control their operation within that 500,000 square feet.

We have already begun working on how to assess the rent for the various spaces. We still have some additional work to do in that area.

As you know, under the act we are required to receive commercial equivalency for our space. Obviously it is easier to ascertain that for the Federal side of the facility where it comes in, fully serviced, at about $57 to $60 a square foot. However, a different set of evaluation criteria will have to be applied to the ICTC side because it is very expensive commercial space that they will be occupying. And I know the good Senator does not want to hear me say this, but it is going to be very expensive, and it will be above the $57 to $60 a square foot.

Mr. BOSCO. Do you feel that the—was it Mr. Hauser who came forward with the figures on what the estimates are on the square footage costs of this building? Do you feel those are accurate?

Mr. AUSTIN. We are right in the ball park, Mr. Chairman. Our people have been working with Mr. Hauser's staff and with the ICTC, particularly since we are in the process of finalizing the developmental agreement, we're starting to get some figures that have some solid base to them—I am not suggesting that we did not have some solid base prior, but we now have something we can actually put numbers to. And we feel comfortable that we are looking at debt service of about $57 to $60 a square fot, fully serviced, overall at the date of occupancy.

Mr. Bosco. I notice that there is quite a funding for construction management, and you anticipate hiring an outside construction management firm to oversee the development of this building.

Mr. Austin. Mr. Chairman, if I may, could I hand that question off to PADC because PADC is actually overseeing the construction and the development of the project? We are simply going to be the lessor, and while we have verified their numbers and continue to have an interest in their numbers, they are responsible for the decisions in relationship to how the project will be developed.

Mr. Hauser. Mr. Chairman, before Mr. Brodie answers that, I would like to add, though—and I think I mentioned this in my testimony—that while we are comfortable with these numbers as being solidly based, we are continuing our review to see if we cannot reduce them. And some other economies may be achieved through a soft market, for example, in construction. So, we hope that there are opportunities for other economies.

Mr. Bosco. Well, there is $15.5 million for construction manager's fees and $20.6 million for construction manager's administration. So, I assume that is a private construction management company that would be brought on board to see this project from beginning to end. Is that true?

Mr. Brodie. That is correct, Mr. Chairman. Those figures would be within the Delta team, and that is essentially the Perini Company based in Framingham, Massachusetts, who are part of their team and would be doing that.

The construction consultant, which is just our terminology to distinguish it from the construction manager, is in a process that Mr. Hauser referred to earlier that we are close to making a selection. These would be the Government's troops on the project every day. These are people with mud on their boots, not sitting behind desks, and would be monitoring the project with us and with GSA, reviewing change orders, reviewing whatever one encounters on the site that nobody can foresee, and helping to bring in the project on time and on budget.

Mr. Bosco. Well, that is the question I have. GSA then, as the lessor—will you have your own separate team?

Mr. Austin. Yes, we will. We will have our own team, working with PADC, to ensure that we have a comfort factor throughout the construction process.

Mr. Bosco. And you are sure that this will not be duplicative. I mean, I think it is important to have construction management, but you do not want people climbing all over each other and duplicating. You are sure that this can be worked out?

Mr. Austin. From our perspective, Mr. Chairman, we think it is necessary to have our people involved simply as a check and balance. I am not suggesting that anything will go wrong but to ensure that we, as the lessor and at the time we sign that lease, are committing the Federal Government to $738 million, and by the time you add financing costs several billions of dollars, I want to make sure, Mr. Chairman, that every bolt is in the right place and that the appropriate tests are run and that the electrical conduit is right and the HVAC system is installed appropriately. So, we are simply acting as a second check and balance to the assurances that the PADC will receive from their own people.

Mr. BRODIE. But there will be one organized cadre, Mr. Chairman, so that the Government people will not be giving different directions to the developer or answering questions in different ways.

Mr. AUSTIN. They are in charge of the project, Mr. Chairman. We would simply be there to assure ourselves and to report any kind of deviation, errors or omissions that we might observe.

Mr. BOSCO. When will the developer be allowed to go forward with this project, and when will he be allowed to acquire the financing that it takes to pay off his architects and those who have helped in the development thus far?

Mr. HAUSER. Well, the developer has been moving forward all during this period of time. In fact, we have received a request for payment.

Where we are at this moment is awaiting the internal review at GSA and the execution of the master lease at which time the financing would go forward, as we described earlier. And we have been exploring various options with GSA, ways for the developer to obtain some interim financing so that the schedule is not delayed in any way.

Mr. BOSCO. Mr. Austin, are you comfortable now in signing the master lease?

Mr. AUSTIN. No, sir, not at this point.

What we have done, Mr. Chairman, is we have presented to PADC an MOU, a memorandum of understanding, offering to indemnify the project up to a maximum of $22 million, which will allow PADC to go out for a letter of credit, or to some other finance mechanism, with the Federal Government standing behind the project, up to that dollar limit.

While we are doing that, Mr. Chairman, we have the Inspector General from the General Services Administration and the Acquisition Policy Office of the General Services Administration reviewing the master lease, all of the paperwork that is involved in this process, to ensure that all the I's are dotted, all the T's are crossed.

There is a secondary issue. While the construction costs are taking on a more solid definition, we still are waiting, as Mr. Hauser had indicted, for the financial packages to be evaluated and the ultimate finance pack to be selected. That would all go together then to put the master lease in place. We would then have a firm idea of what our costs are going to be.

Mr. BOSCO. When do you anticipate that?

Mr. AUSTIN. It is our belief—I have talked to both Acquisition Policy staff and the Inspector General and tried to instill in them the sense of urgency of moving this process along. We are hopefully 30 to 60 days away. It could run up to 120 days depending upon the complexity of the leases and any questions raised.

I might add to the benefit of the PADC, however, that they have been very cooperative, and the developer has been very cooperative, and they have indicated that any deficiencies, errors or omissions which we might find will be promptly corrected and that they will provide us with those correctons. So, I think the process can move along very quickly.

And I would offer, Mr. Chairman, we are not on hold. It is our belief that once the MOU is signed, that the $22 million indemnification is there on behalf of the Federal Government, and PAPC could begin expending those funds.

Mr. Bosco. Well, with that MOU, presumably you would be able to reimburse. The developer, for instance, would be able to get financing to pay his costs thus far?

Mr. HAUSER. Thus far, and to proceed with the relocation of utilities and the removal of some of the contaminants on the site.

Mr. Bosco. I have other questions, but I would like to allow the members of the subcommittee to ask their questions. Mr. Petri.

Mr. PETRI. Thank you. We may end up with a couple of rounds of questioning, but the bells will probably start ringing shortly too.

I would like to thank all of you for your testimony and for the job that you are doing, hopefully, for the taxpayers and citizens of this country.

Mr. Austin, GSA testified back in 1987, when this project was going through the congressional process, that there would be a savings of $280 million over 30 years due to the release of standard leased space. Given the new cost figures, can you estimate what, if any, savings there would be now?

Mr. AUSTIN. Our most recent projection, Congressman—and this is as of even early this morning because when I was presented with these figures earlier in the week, I wanted to go back and try to attest to them. As best we have identified, we can identify approximately $220 million worth of savings over the 30 year process. That is somewhat decreased, and the reason it has decreased is there is less space to offer Federal tenants. Therefore fewer can move into this leased space.

The original number was based on the Department of Justice being the primary tenant. That has changed. There are some offsetting costs of that 400,000 we are going to have to out and rent on the market, and there are some concerns that additionally some of the space that USIA currently occupies is in Government-owned space so that there is no associated lease cost savings there as well.

But we identify approximately $220 million over the 30 years, Congressman.

Mr. PETRI. Now, there was maybe a difference, I should say, between your testimony and Mr. Hauser's so far as the gross square foot rental project. He indicated in his prepared testimony that it was a net figure, around $25, and gross, $42.70 or something like that. And you said by the time that we are actually down to occupying this building or activating it, you thought it would be about $57 gross. And that is a huge difference between $42 and $57.

Mr. AUSTIN. Mr. Petri, the difference is actually in definition. Mr. Hauser is correct: $42 is for debt service. The difference would be for the operation of fully serviced space, janitorial service, security, maintenance, those kinds of things. That would then bring the cost per square foot figure up to the $57 to $60 I mentioned previously.

And ironically enough, as Mr. Hauser indicated, in a recent market survey, one entity located in close proximity to this area, the Evening Star Building, already is at this dollar rate. And the ICTC rate is based on a 1995–1996 occupancy.

Mr. PETRI. Mr. Roth, you indicated that you are currently in leased rental space scattered around town in the neighborhood of around a million square feet or 800,000 square feet?

Mr. ROTH. About 930,000 square feet.

Mr. PETRI. I know they are different leases. Do you have any figure as to what your current square foot rate is on these leases? It must be less than $57 a square foot.

Mr. ROTH. Oh, yes. It is not more than $57. I can get that for the record, if I may. I do not have that in my head.

Mr. PETRI. Okay, because this would give us an example of seeing what the savings are since you have leases there on record and we could compare that with what you will have to pay in this new building. I know there will be differences because your leases would probably change some as they were renewed.

[The information received from Mr. Roth follows:]

A. Summmary of USIA Space Allocation & Cost by Building:

Agency Bldgs	Sq. Footage	Total Rental By Building	Cost per Sq. Foot
USIA	327,207	$8,958,885	$27.37
Wilbur Cohen	351,854	10,013,866	28.46
Patrick Henry	136,994	3,444,559	25.14
Radio Marti	54,495	1,332,963	24.46
Switzer	52,918	1,341,662	25.35
Nassif	5,517	153,483	27.82
Totals:	928,985	$25,245,418	$27.17*

* $27.17 is the average cost per square foot

B. Lease Renewal Dates & Locations of Buildings Used by USIA in the Washington Area:

1. Federal Center Plaza Building
Address: 301 4th Street, S.W.
Lease renewal: January 1993
Square footage: 327,207
Annual Rent: $8,958,885.00

Agency Elements: Director, Deputy Director, Counselor, Area Offices, Programs, Educational and Cultural Affairs and Management Bureaus

2. Wilber Cohen Building
Address: 330 Independence Avenue, S.W.
Government Owned Building
Square Footage: 351,854
Annual Rent: $10,013,866.00

Agency Element: Voice of America

3. Patrick Henry Building
Address: 6th & D St., N.W.
Lease Renewal: October 1993
Square Footage: 136,994
Annual Rent: $3,444,559.00

Agency Elements: Television and Film Service

4. Radio Marti Building
6th & D Streets, S.W.
Lease Renewal: May 1992
Square Footage: 54,495
Annual Rent: $1,332,963.00

Agency Elements: Office of Inspector General,
Radio Marti and Exhibits Service

5. Switzer Building
Address: 330 C Street, S.W.
Government Owned Building
Square Footage: 52,918
Annual Rent: $1,341,662.00

Agency Elements: Offices of Contracts, Personnel Training

6. Nassif Building
Address: 400 7th Street, S.W. (Dept of Transportation)
Lease Renewal: January 2000
Square Footage: 5,517
Annual Rent: $153,483

Agency Elements: Security

Mr. **Roth**. I do not know whether GSA has figured into this or not, moving the VOA around in the old Wilber Cohen Building, which they soon expect to totally refurbish. We estimated some time ago that it would cost about $16 million to keep the "Voice of America" operating on its radio broadcasting schedule, retaining it in the building as you moved it around to refurbish. That building is very, very old and needs everything to be done to it. GSA proposes to do that Cohen building renovation about the time we would move out, if we were to move, to the ICTC building. And we originally figured that would save about $16 million, although I would not swear by those three or four year old figures.

Mr. **Austin**. Congressman, I certainly would not want to try to correct Richard, but I do not believe his leases are approximating $57 to $60 a square foot. I think it is probably something considerably less than that. However, I would be happy—maybe I misunderstood.

Mr. **Roth**. No. I just said I did not know precisely what it was. It is less than $54 a square foot, yes.

Mr. **Petri**. Because here we are moving forward with a project which is going to result in significant savings over the next 30 years and. Yet his rent is going to go up, I am willing to bet, considerably in the new building as opposed to what he is paying now, albeit it in more desirable, tailormade facilities and a more prestigious location, so that it probably is worth something.

Mr. **Roth**. And slightly smaller total space.

Mr. **Petri**. But how we get savings projections out of it boggles my mind.

Mr. **Hauser**. Mr. Petri, it may be foolish to respond when I have not been asked a question, but one thing that is important to bear in mind here is what we are talking about are savings over a 30 year period of the master lease. And it is also important to focus on the fact that in year 31, we have a building for which the lease payment is zero. It is a building that is owned by the U.S. Government so that throughout the life of the building, there will be substantial savings in addition to those that we are talking about.

Mr. **Petri**. Now, just pursuing Mr. Bosco's line of questioning on how the lease arrangements are going to work, Mr. Austin, you will sign a lease for the whole building with the developer or owner.

Mr. **Austin**. Actually with the PADC.

Mr. **Petri**. Okay, with PADC. And then you will sign, in effect, subleases with the various tenants.

Mr. **Austin**. That is correct, sir.

Mr. **Petri**. What about the joint use space? You are going to have to pay rent on that space. Will that be counted as part of ICTC's space or part of USIA's space, or will it be your space and you will have to eat that rent?

Mr. **Austin**. Well, Congressman, there is certainly no enthusiasm on our part to eat any part of the rent. No, the rent for the 100,000 square feet of joint use space, as we would view it, would be shared. Where both Federal occupant agencies and the ICTC would have the ability to use that space, the cost would be a shared across the entire project. To accommodate for that 100,000 square feet, it will be paid for by all occupants.

Mr. **Petri**. So, you would have to negotiate as part of their lease, a clause assigning them—in effect, that portion——

Mr. **Austin**. It would be added on to the square foot cost of their space. I do not know that we have actually put a pencil to it, but as an example, if the cost was, in fact, $55 a square foot, there well may be another 25 cents added on which would cover the 100,000 of joint use space.

Mr. **Petri**. So, if we did not change the 500,000 current ceiling on space in this building for ICTC, and you allocated 60 percent of the cost of the joint use space to them, then it would be reasonable for us to assume that 60,000 square feet should be allocated against that 500,000.

Mr. **Austin**. A percentage ratio, yes, sir.

Mr. **Petri**. Now, when ICTC, as they are contemplating, enters into third tier leases, that is to say relets the space that you are letting to them, will they be permitted to lease that at less than they are paying you, or will they have to charge foreign governments, vendors, restaurant people and so on at least as much as they are paying to you? In other words, are we getting ourselves into danger where we are going to start subsidizing foreign governments and business operations and so on by having below-cost leases?

Mr. **Austin**. Well, I think, Congressman, that we are not involved, short of our participation on the board of ICTC, as to how they run their 500,000 square feet or how they recapture their costs. However, I think Senator Percy indicated that they have a two-year window where they have to be fully operational and self-sustaining. If in that 2-year window they fail, there is little comfort in the fact that you have only made your exposure for that 2 years.

However, the avenues they will seek in terms of gaining funds, whether it is appropriated funds, funds obtained from leasing space or subletting of space, funds from control of the parking lot, or fundraising activities or contributions by other entities, I am not sure what their long range financial plans are.

Mr. **Percy**. Congressman Petri, may I comment on that?

Mr. **Petri**. Yes, please.

Mr. **Percy**. And then if Ken Sparks, our President, would have anything to add, I would like him to put anything into the record then or just verbally comment to you.

We have the mandate to be self-sufficient in two years. Therefore, I want the flexibility for the commission to be able to charge a going market rate, but charge what it is worth. And I take into account that of the 204 world trade centers, including the New York World Trade Center, which we visited a couple of times, not a one of them has been built large enough. Even though the New York is 11.5 million square feet now, they just are not built big enough.

Now, we do not take private in, of course, but you can imagine what it is going to do to expand the private to be near us. We see huge figures in the future. But we will be charging on the basis of supply and demand, but we want to encourage little countries like Lebanon who have applied for 6,000 feet. They are looking ahead to the future when they are going to have peace out there.

But also, India, the largest democracy in the world, wants very much to be a part of our presence. I had breakfast at our home yesterday with Carin Singh, as he is now leaving. But he goes back with as much conviction and enthusiasm as any predecessor had and I know his successor with have when he arrives here.

So, we will charge fair rates, but we want to get them in there. But we know we have something that they will really want, and we would like the flexibility to charge so that we can come within our mandate. And then we may want to subsidize by having a rent charge for one thing.

And then the performing arts—we have to recognize that those sometimes have to be subsidized, and this may be the way to do it. And I would like to see that we have the flexibility because we have a 2,000 seat theater which will have performing arts all based on international connotations. We are not competitive with the Kennedy Center. After all, I was on the board 18 years there representing the Senate as vice chairman with Roger Stevens for 12 years. And I do not want to compete with the Kennedy Center. But Roger Stevens is one of our key advisors, as is Dillon Ripley and the others in the arts who are helping us in every way possible. So, we want some flexibility.

And may I with your permission, Congressman, introduce Jud Sommer, who is an investment banker, who is a member of our commission who was here?

Mr. PETRI. He is there.

Mr. PERCY. Jud Sommer, raise your hand.

And I would like to point out that though he is an investment banker, he also served with me in the Senate as a key staff member there. And he is very cognizant of appearances of conflicts of interest. As an investment banker, he ruled himself out of any deliberations of any kind on the selection of the financing and the selection of the contractor. And two of our other commissioners also ruled themselves out.

Thank you very much.

Mr. BOSCO. May I ask a question, Mr. Petri?

Mr. PETRI. Sure.

Mr. BOSCO. In terms of only having 500,000 square feet—and I know I am going to open up a can of worms here, but just very briefly, is that enough? Maybe we are housing Federal agencies in this that would be taking the space of others that really could fit in more to the purpose of the whole building.

Mr. PERCY. We are trying very hard to stay within that limitation, but we do have some areas that are really joint use. The Commerce Department will be a full-fledged partner with us in the one-stop center. We want to be able to answer 90 percent of any question any businessman would have when they come into that center. They will go into a computerized setup. If they want to find out who a potential agent would be in Zimbabwe for their particular product, we would like to have them get a computerized answer back.

Mr. BOSCO. So, you all feel this mix is pretty compatible.

Mr. PERCY. We find them very understanding that some of the things that we would have in our space is a joint use occupancy, and we may have to exceed the 500,000 limit and hopefully with your understanding and full support. But we do so first working it out between all of us right here at the table.

Mr. PETRI. I am going to yield and then maybe have another round because I do not think it is fair to take up more time at this point. But I think we really will have to figure out some way of putting down some markers as this goes along so that we do not start down a slippery slope. The ultimate tenant is the Federal Government, leasing through GSA, because I assume the taxpayers are being asked to stand behind the ICTC, not the trustees. They are not personally guaranteeing the lease or anything else. It is us who are guaranteeing the lease, in effect. So, as a prudent representative or trustee, in effect, it seems to me we need to agree on some markers or something so that if they are not met, that we cut our losses, in effect.

Mr. PERCY. Right, absolutely.

May I ask you a question, Congressman? Growing up in Illinois, we have a saying there. Make your living in Illinois and have your fun in Wisconsin, which I have done all my life. [Laughter.]

Mr. PERCY. How important is tourism, for instance, as an industry in Wisconsin? Is it as important as in California and Alaska and Florida and so forth?

Mr. PETRI. Tourism is very, very important, and as you know, some of your family members have lived for years actually in my district and enjoyed it year around.

Mr. PERCY. Let me just say I am asking Ken Sparks to make this a subject of our staff meeting. We want to take tourism as an industry and really build it.

When I look at the figures for Europe and recognize one out of 10 jobs in Europe is for tourism, it is the number one industry for Europe. They have 60 percent of the tourist trade for the whole world. And boy, have they worked at it. We have not really worked at it.

Can you imagine with your state office there, cultural officers, trade officers, et cetera—and every state that I have talked to wants to have an office there. Can you imagine us with these theaters having films? Our consultants estimate 5 million visitors will come. This is going to be one of the most vibrant places. We are way out in the boondocks at the Kennedy Center. We do not even have a metro station there. People can get off at the metro and walk right over to our center with an entrance on Pennsylvania Avenue. Imagine this with a theater there on a special day for Wisconsin, 2,000 seats. The film theaters will be running some things 24 hours a day.

Mr. PETRI. He was the best salesman in college, you know. In the history of Illinois, I think. [Laughter.]

We also are cognizant of what happened to the wonderful visitor center that we had down the street before we finally got it right. And there is that potential here unfortunately.

Mr. PERCY. It is right now, though. It is a wonderful thing, what has been done.

Mr. PETRI. Do you have a feeling for what percentage of your 500,000 square feet, or whatever the figure ends up being, you will be subleasing and what you will be retaining——

Mr. PERCY. I would like to ask Ken Sparks to answer that.

Mr. PETRI [continuing]. And by what date you will have subleased it so we can get some idea of if there is actually a market out there for all of this?

Mr. SPARKS. The idea is, Congressman Petri, that all of the space will be, in one way or another, income-producing. The retail space—we would expect, for example, to be able to make some money on the retail space. The office space—we hope we can make money on that. We certainly think that over the 30-year period we can make money on it. But we intend to lease that. Even the theaters will be income-producing. The conference space will be income producing.

And we have to come up with a business plan that allows us to be self-sufficient by the end of 2 years. So, I do not really sense at this point on our part a concern that we are not going to be able to pay these bills. We do not have a fully developed plan, as Senator Percy said. What we have are some preliminary studies that we are actually right at the moment updating in a very economical way. We are not doing the full-fledged business plan that we really should be doing at this point. That is part of the burden, like the Senator was saying.

But we have no question I think that we are going to be able to have the retail work. The advisors who are advising us, many of them on a pro bono basis, believe that the various components we have in this project will work and will be income producing. We will somehow develop a plan that will allow us to be self-sufficient.

Mr. PERCY. I have never been accused of under-pricing anything in my business life. We always had the highest priced things and they were always worth it.

Our intention is really to charge more than certainly any of the Federal agencies will be charged because it is a highly specialized thing that we will be providing. And it is just not office space. They need exhibit space. They need to do things, all kinds of things. And we will have no trouble, no trouble in leasing it at a fair rate, but we are going to be substantially higher I think than the Federal spaces.

Mr. PETRI. But do you anticipate entering into these leases before the building is finished so that that space can be tailored to those tenants? And if you don't, in other words, can GSA then have a clause that allows them at a certain point to redeploy the space rather than holding it in reserve for you and your tenants? Have some thoughts been given to how we not only succeed, but how we end up redeploying if we are forced to?

Mr. SPARKS. As you can guess, it is very difficult to go out and lease space, say office space, which is the easiest thing to think about, until you know what the costs are, what the location is, what you are really going to be able to offer the person who you want to sign the lease.

Our guess is—and Jay, correct me if I am wrong on this—that it will be about a year from now when the design work is finally complete and when the design has been put to bid that we will finally know the actual costs of the space, and that we can then begin to plan to have our lease with GSA so that we know what our costs are there, and then have a business plan that will allow us to go out to countries and say we have this space on the seventh floor that would be available at thus and such a rent. I think it will be at least a year before we are in a position to do that.

We are also almost five years away from having the building open. So, I think, Congressman, that there is going to be plenty of time for us to know whether in fact we have misjudged the allocations of space in the building. As you know, the legislation provided that any of the space that did not get used was to be set up in such a way that it was somehow going to be converted back into Federal office. I do not think that is going to be our problem. In fact, my sense of the market at this time is that, if anything, we are going to be considerably over-subscribed, as Mr. Bosco suggested.

Mr. PETRI. Well, I certainly hope so, but I do think I have an obligation to the taxpayers, to at least put out some markers because we tend to not want to recognize reality in this world sometimes if it is unpleasant. And, therefore, we need to have something that forces us to do a little bit of that. And, therefore, there must be some reasonable guidelines that the Congress and the staff here can use to sort of call this up on our screens, and if you are not meeting those guidelines, then GSA could step in, hopefully, or have the authority to step in and use this prime space productively as we are going forward with the building in any event.

Mr. PERCY. Mr. Chairman, may I just say that I was advised by the staff that we would be in session at the latest a quarter of 12:00. I have an airplane I have to make, and I have an arrangement with the airlines that if I am not there on the departure time, they leave without me. [Laughter.]

Unlike when you are in the Congress. Occasionally you can get one held for a couple of minutes. They leave without me. So, I will have to walk out about 20 minutes of, if that is all right. So, if there are any questions that anyone would like to ask me, if you could give me a little precedence on that——

Mr. BOSCO. Well, I was hoping we would be finished long before that. Thank you very much.

Mr. Lewis.

Mr. LEWIS. Thank you very much, Mr. Chairman. Mr. Chairman, I appreciate your holding this hearing today and am very happy and delighted to see the witnesses here.

We are here to examine some very important issues regarding what is probably one of the most significant building contracts over which this subcommittee has oversight. The Federal Triangle Building will accommodate 3.1 million gross square feet of space. It will be second in size only to the Pentagon. We are talking here about a billion dollar contract.

Congress intended that the Federal Triangle Building provide more economic and efficient use of Federal building space. Mr. Chairman, you may recall the former chairman of this subcommittee said in a hearing in July 1987 that the proposed Federal Triangle Development Act would save the taxpayers approximately $281 million by consolidating Federal office space.

Now, Congress also intended that the Federal Triangle Building would house an international cultural and trade center and presumably represent all segments of the American society. Presumably this project itself was to be inclusive at all stages, the development stage, the design stage, the construction stage, every stage.

It was Congress' intent that the design of the Federal Triangle Building be compatible with the design of the existing buildings in the Federal Triangle, including the District Building.

Finally, it was Congress expectation that it would cost about $462 million to build this building.

We have a lot at stake in the Federal Triangle Building. We have an awful lot of money invested in this project. With such a large building, we are changing the landscape of downtown Washington, D.C. We are setting a precedent for some 21 Federal building projects already on the drawing board for the next couple of years. In addition, Mr. Chairman, we are sending a message to the private sector.

We need to know that the contract was awarded in a manner that is consistent with, number one, the development proposal submitted by PADC, and approved by Congress; number two, Federal procurement laws and regulations; number three, the Federal Triangle Development Act; and number four, the PADC Act and number five, congressional intent. These are important issues.

I tell you, Mr. Chairman and my colleague from Wisconsin, many of the articles which I have read recently have raised some question in my mind about some of these issues.

Now, Mr. Austin, in 1988 the estimated cost was $462 million. Last November Mr Hauser told us that—he quoted something like $665 million. Today we are talking about $738 million. Is this the final cost, and if USIA comes in, would the cost go up?

Mr. Austin. Well, Congressman, in terms of the final cost, it is the cost that PADC has identified in conjunction with the developer. It is a cost that we have been able to evaluate. I believe, sir, that as it is quantified right now, it is the final cost for the construction.

I do not know—and I cannot answer at this point—that it is the final cost once we begin moving USIA and their studios and everything else that will have to be special built out space. That could drive the cost up some.

But as far as what PADC has negotiated and what they have been able to share with us, we have all agreed, the ICTC, the PADC, and GSA, that the $738 million is an auditable number and a number which is a realistic estimate. Obviously, the final number will be the number that we receive at the point when the bills start coming in and we are able to assess the final design of the project.

Mr. Lewis. Mr. Hauser, will you please summarize the advisory comments from the D.C. Historic Preservation Office and from the Advisory Council for Historic Preservation?

Mr. Hauser. I cannot give you that answer. Perhaps Mr. Brodie can. I know that we have received their comments, and they are under consideration right now.

Mr. Lewis. Are you prepared to submit copies of those comments to this committee?

Mr. Hauser. Surely.

Mr. Lewis. Do you have them with you today?

Mr. Hauser. I do not have them with me, but we would be happy to supply them.

Mr. **Brodie**. Just a sentence, Congressman Lewis. There have actually now been several series of comments, and we will in fact be going at least twice more to each of the bodies you mentioned. We have a formal agreement with them under the section 106, historic preservation process. So, we have received comments on the conceptual design, which is the design you see around you here. We have responded. They have responded. We are in active communication with them. We will be back again at the schematic design level. We will be back again at the design development level.

We would be glad to supply you the correspondence to this date. Surely.

Mr. **Lewis**. How soon will those be made available?

Mr. **Brodie**. I can get it for you by this afternoon.

Mr. **Lewis**. Thank you.

On the whole question of affirmative action, I understand that on the same day that it awarded the contract to Delta, PADC passed a resolution requiring the selected developer to seek out minorities and women who were participating in other developers' project proposals, and offer them an opportunity to participate with the selected developer on this project. Is this method for increasing minority participation in development projects standard in the industry? Has Delta sought out any of those minority participants? If so, which ones?

Mr. **Hauser**. Let me begin, Mr. Lewis, and then Mr. Brodie can add.

The PADC's affirmative action standards are set forth in title 36 of the Code of Federal Regulations, which were then amended for this specific project. And the affirmative action requirements were set out in the prospectus.

The action that was taken by the board on October 16 was to try to provide a mechanism for maximizing meaningful minority participation, and that was the intent and purpose of that particular board decision. And it was intended to put some teeth into it so that it was meaningful and that there was a method for the board to monitor what actually has transpired during the development process.

Mr. **Percy**. Congressman Lewis, if I could add to that.

Mr. **Lewis**. Yes.

Mr. **Percy**. I sat through the entire proceeding. Even though we are in an advisory capacity, the decision has to be made bu PADC as to the developer. They listened to our advice and counsel. I sat through every hearing. There was not a developer I did not question on the hiring practices, the disadvantaged, the minorities and particularly the majority, women. We wanted to make absolutely certain they were given equal employment opportunities and taken into every aspect of it, including policy setting and executive positions, and also handicapped particularly.

And I was satisfied that PADC did a thoroughly good job in investigating that from the standpoint of every bidder and took this fully into account in making a decision.

Mr. **Brodie**. Congressman, if I might add a few comments.

Mr. **Lewis**. Yes.

Mr. **Brodie**. If I recall the parts of your question, one was on the sort of standardness of what went on here. In every competition since I have been involved with PADC, which goes back to 1984 starting with Market Square, more recently the competition for the Lansburgh site, once the developer was chosen, through same sort of open competition selection process, the board and the staff urged the developer not just to sit at the level of minority participation that they had shown us in their proposals, but to go seek out additional players. And one of the places to seek out additional players is to look at the players, if you will pardon the sports metaphor here, on the other teams and to see if they are interested.

So, what the board did in the case of the Federal Triangle, simply because it was so important I believe, was to put that standard practice in the form of a resolution to give it perhaps a little more weight. Since that time—and there are actually some Delta representatives here who might speak more specifically to it—both Delta has been out to talk to the other players and some of the players have on their own contacted Delta by letter, some of which they have sent us copies of.

So, we would be glad to provide for you the present state of signed agreements with both minority and women-owned businesses. But we do not expect that has by any means come to an end. We expect that process is going to continue all the way through as we are taking bids on pieces of the project, such as excavation and concrete and masonry and utility work, and as other members are added to the team.

Mr. Lewis. Mr. Hauser, you told us that the Delta plan would be a model. What happened to the plan that you referred to on November 14, 1989?

Mr. Hauser. I do not know if I understand your question, sir.

Mr. Lewis. Well, in your testimony, your prepared statement, you said that the Delta plan, affirmative action plan, would be a model, I guess a blueprint, a road map, a guidepost for others in the industry I guess. On November 14, 1989 when you came before us, you told us that the Delta affirmative action plan was above average. Were you referring to the plan which Delta submitted as part of its original proposal, or was it a post-award plan that you were referring to?

Mr. Hauser. Well, if I recall our colloquy before, I think your question was wasn't the Delta plan the worst plan from an affirmative action standpoint. And my answer to that was it was not. And I do not wish to get, again because of the pendency of this lawsuit, which I think has fueled a lot of the questions which exist about the project now—I think that is unfortunate, but I am glad that we have an opportunity to talk here today to clear the air.

I think what I said was that at that time the Delta Partnership's affirmative action proposal was above average. It was not superior as a couple have been ranked, but it was better than others. And our intent here has been—let me back up and say that it fully satisfied the criteria for affirmative action as set forth in the prospectus so that there was no deficiency from the affirmative action proposal or plan set forth by the Delta team.

And what I have been referring to here is an effort on the part of the board to go beyond that, that we are not going to be satisfied to stay at a certain limit. We want to try to promote and foster as much minority participation as we can.

I hope we are talking about the same matter.

Mr. PERCY. Mr. Lewis, could I just say——

Mr. LEWIS. Yes, Senator.

Mr. PERCY. I would want you to know that I not only spent a great deal of time on it, even though we had no responsibility. We are not named in the suit whatsoever. But I spent the time because I did not want to be associated with anything that there was any problem with, any kind of a problem, because this takes valuable time and could delay us and so forth.

But I want you to know that, and I have the advice and counsel of a former foreign service officer who is one of the top people in the country I think in this kind of thing, and he is working with me as an unpaid advisor and helper in this regard.

I will certainly serve as a witness—and I have volunteered to—as to what went on and the precision and the care with which this was done. And I just want you to know that I will participate actively in seeing that this does not become a time consuming, costly deterrent to our work because we really observed that it was done in a scrupulously honest and straightforward fashion.

Mr. LEWIS. Senator, first I appreciate your response and your assurance.

Mr. PERCY. Thank you.

Mr. LEWIS. Let me, Mr. Chairman, ask maybe my final question along this line, and maybe during the next round, maybe I will have other questions.

Could you tell me about PADC's affirmative action goals? What are they? Did Delta demonstrate in its original proposal that it was prepared to meet the affirmative action goals?

Mr. BRODIE. If I may, Congressman.

Mr. LEWIS. Yes, sir.

Mr. BRODIE. PADC goal's, set out in the Federal Register, that Mr. Hauser referred to have been around for some time. I guess they go back to 1979. And they came out of the Federal affirmative action statutes. So, there are goals which were part of the prospectus that went out to the world in all the aspects that you might imagine on professional and technical levels, on contracts both in dollars and in personnel terms, et cetera.

This is a copy from the prospectus which I will be glad to leave with you. We had three notes re the suggested minimum guidelines and goals. "One, equity participation. Since the Federal Government will be the owner of this project, there are no equity participation requirements." If I can amplify on that for a second.

The goals were written in general looking at a project, say, such as the Willard where there was a private developer putting up funds and looking toward getting a profit and asset back. That was not the case here.

Mr. PERCY. Mr. Lewis. Because I have to leave, Jay, would you mind my interrupting?

Could I make an offer to you, sir? Why don't you and I just monitor this situation on affirmative action? Start right today, and I do so from the standpoint that in 1949 our company had not a single black employee in it. Can you imagine that? Not one. They had a couple of incidents, and they just did not have any.

I called 500 supervisors together, and I said we are going to—there was no Civil Rights Act then. I didn't have to at all. I said this is absolutely wrong. We have the cream of people in the south and west side of Chicago and we can get them out here if we really-offer them jobs. We integrated and said I will fire any supervisor that does not cooperate with that program. I did not have to fire one of them.

We integrated the company beautifully. And 5 percent of our employment were handicapped. We received an award eight years later for having more women in executive positions in Bell and Howell Co. than in any other company in America.

So, with that record, I say to you let's work together. You and I will monitor this whole program to see that this is a model. This building is a symbol to the world now. Can you imagine us building it without taking those factors into account? That is why we questioned every developer and why we will see to it day by day that they implement this. And I can assure you they will.

Mr. LEWIS. Thank you, Senator.

Mr. PERCY. Or they will have a hell of a time with me I will tell you that. And so will PADC, but I do not worry about them at all.

Mr. BOSCO. Senator, we want to thank you for your participation. As always, it is very enlightening and we wish you the very best on your travels today.

Mr. PERCY. Thank you, Mr. Chairman. And may I just simply say that you and I share—you probably do not know this. We both have degrees from Willamette University. The only difference is yours is an earned degree. [Laughter.]

Mine was unearned. I just gave a speech, and they gave me an honorary degree.

Mr. BOSCO. I wish I could have done something like that.

Mr. PERCY. Thank you very much.

Mr. BOSCO. Thank you.

Mr. BRODIE. Congressman Lewis, if I can return quickly to your question. I touched on the equity modification because there is no equity in the traditional sense.

The second point will be brief because we will give this to you. The note in the prospectus reads: Replace the former construction employment, so-called Washington Plan, because that was no longer applicable, and establish a corporation's goal for 35 percent construction employment. And lastly, because again not in the commercial sense will there be retail leasing, we did not see that that was applicable.

Let me just give you the numbers because there are only five categories and it is easy to do. The PADC goals for contracts for professional and technical services, 20 percent; for persons providing—the first contract was in dollars—persons in numbers of human beings providing professional or technical services, 20 percent; construction contracting, again that would be in dollars, 15 percent; construction employment, the category I just touched on, 35 percent; purchasing, 20 percent.

Delta met every one of those goals, Mr. Congressman, in the plan they submitted on June 1.

Mr. LEWIS. Thank you very much.

Mr. Chairman, I yield back my time.

Mr. Bosco. Thank you very much, Mr. Lewis.

Mr. Petri, would you like to ask further questions?

Mr. Petri. Yes, I would like to, if I could, for a couple minutes go into the—thinking behind the provision of the theaters and their enlargement. I recognize Senator Percy is not here, but Mr. Sparks is—was it formally decided to enlarge the space? If you are planning on losing money on them, why did you decide to enlarge them?

There are other theaters right in the neighborhood like the National Theater, Ford Theater, and so on. I understand both they and the Kennedy Center have been struggling in many ways financially. And so, you are coming into an already served and not too lucrative market.

Is this just going to undermine their activities, or do you think somehow by increasing the number of theaters, you will all benefit and suddenly there will be a great surge of profitability at the Kennedy Center and everywhere? What is going on here?

Why don't you list those as common space? Why is it that that is reserved as trade space? It is a series of questions.

Mr. Sparks. I understand, Congressman.

First, I do not quite understand the nature of why don't we list it as common space. I do not understand the direction you are going with asking why wouldn't we list it as common space.

Mr. Petri. Well, you list conference rooms as joint use space, the training center, language center. You would think that you will not be the only people to be using these theaters, and that they will be used, hopefully, by the USIA probably for some broadcasts and one thing and another and by a variety of others—obviously, by a whole variety of people.

Mr. Sparks. I understand the question now, Congressman.

The theaters are multi-use facilities. They are intended to be used during the day for conferences, for meetings. They are intended to be used not just by the ICTC, but by the agencies that are in the building, by other Federal agencies, by other institutions that are working on purposes that are similar to the goals and objectives of the ICTC, to increase international understanding and to improve America's position in trade. So, number one, the facilities are multi-use. They are not intended to be merely theaters. They need to be available to us all day long.

Number two, with respect to the theaters and how the planning developed for the theaters, it was realized that if we were to have a first-rate international cultural center here and to produce the kind cultural programming that we needed to produce, we would need various kinds of theaters. Some of them would be performing arts theaters, some of them would be film theaters.

When the development plan was prepared and sent to the Congress, we alluded to the need for theaters in that, but you must remember that the development plan came up here in June of 1988, and the presidential commission had its first meeting on April 29. So, the development plan did not really reflect a studied position with respect to exactly what kinds of theaters and how much. It reflected an indication that we would need facilities like we were describing in the plan.

We then began intensive meetings in September of 1988. The commission met every Monday night, for basically two months and prepared the materials that then went into the prospectus. And that is the material that has been bid upon and negotiated with the development team.

In the meantime, in the 14 months since the RFP has been issued, we have been meeting with various experts. We have had the National Endowment on the Arts fund a study for us. We have had other studies that we have paid for with the monies that we have had directly to try and determine what the best mix of theaters is at that facility.

What we have concluded at this point is that if we can fit it in and if it can be done within the costs described, that the theater that we described in the prospectus as a 1,500 seat theater and which Delta prepared as a 1,600 seat theater would be improved if it had 400 additional seats in it, about 2,000 seats. The reason for that is that a number of presenters have indicated to us that that theater should be able to operate with at least 2,000 paying customers if we want to have some of the finer cultural presentations available anything approaching a reasonable price.

We expect that through International Days/National Days from the various countries here and through some of the festival type programming that our cultural vice president, Mr. LaResch, is planning, to have very fine events going on in that theater. We want to make the price reasonable, and the extra seats are helpful to us in that regard.

We also have asked that the theater be set up in such a way that it can operate at different levels, at a level of 1,000 to 1,200 and an orchestra, and then adding a row of either one or two balconies there so that the operator may be able to do at 1,000 to 1,200, somewhere in the 1,500 seat range and also at the 2,000 seat range for the major events.

It was also concluded that a theater of about 600 seats that had been described earlier as a 500 seat film theater with concert stage, that if that were operating as a fully functioning theater, that would give us much more flexibility in some of the programming that we would want to do, particularly from the non-European/American tradition. That size theater would be roughly the size of the Terrace Theater at the Kennedy Center. It is a very functional size for a lot of different presentations.

In addition, it was thought that there is great body of cultural work that is done without a proscenium arch, and that some sort of a studio theater for experimental work and for non-traditional western work would make sense. We had thought that that could perhaps be joined with a—that it could also be a rehearsal hall when it was not being used as a studio theater. We have asked what would be the possibility of having both a studio theater and a separate rehearsal hall. In an ideal world you would want to have both. But we do not know yet whether that will work out.

But we think that those three theaters each have very distinct purposes with a very specific mission of what they are to be used for. This is not to be simply a place that is an alternative for road shows coming in from New York. It is not intended to be used in that way at all. We do not expect to have long runs in this theater.

We expect things to be relatively short, in and out. We expect a lot of work in music and a lot of work in dance, being two mediums that we think can translate easily with audiences here, although we want the theaters to have the capacity to do everything that can possibly be done. And they are multi-purpose again.

In addition, we have two dedicated film theaters in the complex. One of them is what we call an IMAX theater. It is a large screen theater, something similar to the screen at the Air and Space Museum. And we have talking with various people who produce those large screen kinds of spectacles about entering into partnerships with us in terms of moving that particular portion of the program ahead, and we think we have something very exciting that we are working on in that area that we may be able to say something about in a few months.

In addition, there is another film theater of about 300 seats that we expect to have a constant running of foreign films there as a way of folks getting to understand other people's cultures through a very fine collection of cinema that exists around the world.

Mr. PETRI. Do you have parking reserved for all of these theaters sufficient so that if they are all in use at the same time, while the building is being occupied during the day that they will be able to actually get an audience. Or are you expecting people to come by subway, or what?

Mr. SPARKS. Well, the fortunate thing is that the subway does enter right into the facility. It really will not be necessary for people to go outside. Once you enter the subway, you will be in the building when you get out.

This is a subway stop right here. You will just come right in at what they call the concourse level one step below grade, and you would walk in. The IMAX theater is in this theater. The 300 seat film theater is in this area. The performing arts theaters are at the front of the building on Pennsylvania Avenue.

With respect to the parking, there will be somewhere between 2,200 and 2,500 cars parked in the facility. During the daytime with some 10,000 to 12,000 workers in the building, it is going to be mighty tight for parking. In the evening time, we think that is the largest parking lot in the District of Columbia, 2,500 cars. So, we suspect that there will be ample parking there in the evenings and on the weekends. And I really hope that we get into a situation where the parking is full and the theaters are full and we have the problem of trying to encourage more people to ride the metro.

Mr. PETRI. Are you anticipating leasing the parking the way they do at the Kennedy Center?

Mr. SPARKS. Absolutely.

Mr. PETRI. Is GSA going to handle that part of it?

Mr. SPARKS. We would hope that we could work out with the administrator some arrangement whereby we could share in the revenues from the parking, particularly in the evenings and on the weekends. That definitely is a part of our business plan that as we generate the traffic there, that we should get some portion of those revenues.

Mr. PETRI. Mr. Hauser, do you have any idea as to how the increase in the theater sizes affects the cost of the building? Is that a significant factor or not?

Mr. Hauser. As I indicated in my testimony, we think that any further refinements in theater size will have to be accommodated through the project budget as we have set forth here. So, we believe that that can be done.

Mr. Petri. And they are also analyzing currently the idea of maybe adding an additional floor below grade. Do you have any feeling about the economic viability of that approach?

Mr. Hauser. That is what I believe Mr. Austin referred to earlier. That is not contemplated within the project budget. I believe Mr. Austin indicated it was an additional $15 million that might be associated with that. And I do not know that I can add anything to that at this point other than that is not an element of what we have put before you today.

Mr. Petri. I just have one or two quick questions again for Mr. Roth.

Could you kind of give us some idea of the interaction that you anticipate between the ICTC and the USIA? Will the whole be greater than the sum of the parts, in effect, if you are there, or doesn't it really make much difference?

Mr. Roth. I think that we have agreed from the very beginning. We are, as you know, members of the ICTC Commission, and have participated in the deliberations that President Sparks outlined here this morning.

We have, for example, discussed with the other ICTC members in the planning phases of this project having the conference rooms wired for television and for broadcasting which we would be able to use very effectively on our worldwide television programs or Voice of America, particularly if we get into serious negotiations in the trade area. Trade and economic development questions throughout most of the world are a great deal more significant to the rank and file people in those countries. We publish an economic publication. It is a part of the Voice of America broadcasts. And we feel that to the extent that there are trade and other meetings in the building, that would be grist for the mill of our media activities to carry out throughout the world.

In addition to that, we can identify and help and promote the bringing to the center of exhibits, for example, that they might wish to have because we have cultural affairs officers in these countries who would help the people there prepare what they were bringing to the center here in Washington.

I think it would be a very close working relationship between USIA and the ICTC center. I believe that if this were merely another office building or another place to house USIA—and I know Mr. Gelb feels this and Mr. Kopp feels this—we do not need this kind of housing unless by being there we can advance the cause of both ICTC and USIA. And I think it is a very good relationship.

I do not know if Mr. Sparks has anything to add to that or not.

Mr. Sparks. I just agree completely. As someone who has served with USIA overseas, I can assure you that the USIA programs overseas will complement this thing, and I just think it will be a wonderful symbiotic relationship.

Mr. Petri. Could you briefly explain why it makes sense to have the theaters that are contemplated managed by ICTC rather than by the Kennedy Center, for example?

Mr. SPARKS. I am not sure, Mr. Petri, that they will be managed by us rather than the Kennedy Center or the Smithsonian or the Washington Performing Arts Society or Wolf Trap. We have been working with all of those folks on trying to come up with the best mix of theaters to accomplish the mission that we have, and we have been talking with all of them about how best to try and manage the operation as well.

And in many of these instances, we will not be building a staff to actually manage the operation. I do not expect at this point, for example, that we will be managing a number of the 10 or so businesses that Senator Percy referred to. We will be overseeing them. We will be entering into contracts with people who will have to further our mission and operate the project for us on a contractual basis.

And the theaters could conceivably operate in that manner. One of the proposals that we are talking about with respect to one of the film theaters, as a matter of fact, does contain the option of a management contract.

Mr. PETRI. But do you think it makes sense to have them included in your lease from GSA rather than have GSA retain the theater space and then enter into a lease with the ultimate operator so that we do not make a decision by just sort of sliding forward?

Mr. SPARKS. I would think that our judgment would be that we should sublease the theaters from GSA and then have the international center commission make the determination as to how best they should be managed. And let just explain why I say that.

Basically on the international center commission, we have in effect a kind of tenants and owners council in that the GSA administrator and the Secretaries of the various departments that will be in the building, as well as the USIA Director, all serve on our board. And it seems to me that they are in the best position to know how the mission is served and how the theaters should be used and to try to come up with some reasonable way to manage them.

Mr. PETRI. Mr. Austin.

Mr. AUSTIN. Let me just add just a couple of thoughts, if I may.

Number one, we as the Federal Government have not assessed the need for five theaters or whatever that number may ultimately work out to be. On a need basis, I am sure that the ICTC would make the theaters available through either a lease-back or a credit arrangement.

The distinct advantage that I see in having the ICTC control that space is that it is income-producing 365 days a year to GSA. It may well not be income-producing 365 days a year to the ICTC.

Mr. PETRI. I do not know that the Federal Government has really been a very good theater operator in the past, but if you guys think you can make money doing it, that's fine. I have the feeling you may end up building four or five wonderful holes for taxpayers money that will make the ones that we already have even more deep.

Mr. SPARKS. Well, I appreciate your concern, Congressman. Certainly this particular season and with the situation at the Kennedy Center, there is a great deal of concern. But we are really building here for a future in which Washington will grow in which the importance of Washington as an international center will grow, that this project we think is going to create an awful lot of interest in this city in international things. And we need placed where people can congregate and where they can witness things.

And we believe at this point—again, without a thorough business plan—that is one of the reasons we need the amendments so badly is to get the funding so we can begin to really focus on this business plan. But at this point we believe that we can operate these theaters in a successful way. Success may not be turning a profit on the theaters. We expect the theaters to have to be subsidized, but we think that other operations within the center can help with that subsidy and we think that we can successfully raise funds for it. But the precise business plan is not there yet, and as we get that business plan, we will modify our operations accordingly.

Mr. Bosco. I really wanted to avoid designing the building because I assume there are people who study these things and can tell you how much any given type of theater will attract. But I think you have too many theaters there myself just off the top of my head. To keep three performing arts theaters and two film theaters going I think is a monumental job. And in some ways it transforms you from being sort of a business-trade oriented operation to being an entertainment-arts operation.

But all that aside, my opinion aside, who is going to pay for these theaters? If you do not fill them up, if you do not make money on them, I hope that the GSA, that the Government part of this, the hard core Department of Agriculture, Department of State, USIA and everybody that comes to work in the morning to do their assigned jobs are not going to be paying for a bunch of movie theaters and performing arts.

Now, to get directly to the point, if these things are not filled up, if they do not break even, if they cost people money, which side of this equation is going to make up that deficit?

Mr. Austin. Well, Congressman, the fact of life is that the General Services Administration will sign the master contract. That puts the full faith and credit of the Federal Government, through the Federal Buildings Fund, to pay for that project, whether any or all of that project is profitable or not. And certainly that is one of the great exposures that we have in this process and one of the concerns that we share.

Mr. Bosco. Are you convinced, through either independent studies or your own intuition or experience, that you are willing to undertake that sort of a risk of five theaters operating 365 days a year?

Mr. Austin. Mr. Chairman, let me share it in this fashion. It is assumed that there will be the greatest risk through the first two years of this process, when the decision is made whether or not the ICTC is profitable. We are viewing this as an extent of our exposure, that if in the second year we find ourselves faced with the hard realities that the ICTC is not profitable, then other avenues of funding will have to be sought, either direct appropriations from Congress, some kind of an indemnification by some other process. And I know that Mr. Sparks nor Senator Percy want to hear this, but we already have contingency plans where we could recapture the ICTC space, if in fact, it should not be profitable.

Mr. Bosco. Well, in that regard then, I think this gets to the heart of the issue. In determining during those first two years whether the ICTC has become profitable or at least self-sustaining, which is their obligation under the law, are these theaters all their responsibility? In other words they have to not only be self-sustaining in everything else that they are doing, but all these theaters are credited to them in terms of coming up with this decision as to whether——

Mr. Austin. The rental payment. Yes, sir.

Mr. Bosco. So, all of that is the ICTC's responsibility.

Mr. Austin. Yes, sir.

Mr. Bosco. And at the end of two years, theaters, offices, embassies, everything else do not equal being self-sufficient, then you are prepared to come in and juggle things around, either reform the theaters, restructure them or——

Mr. Austin. Well, let me say before I would come in and restructure them or reform their space, that critical decisions would have to be made as to how to proceed at that point in time. I am sure that those decisions would be made in conjunction with this committee, in conjunction with the Senate and certainly with the ICTC. We have put figures together that would project the cost of recapturing the entire space. That is certainly the worst case scenario. That is not something that we are hoping for or planning for.

We believe that there is a lot of work that the ICTC will be doing as they develop their business plan, spreading their costs over their occupants either by the countries, the States, commercial rates that they are going to be receiving on the commercial lease entities. There are other avenues of income that are going to be available to subsidize the theaters, whether or not they are productive and profitable. I do not know what those matrixes or econometrics are at this point in time.

Mr. Bosco. But you will tell us that those theaters are part of the equation, 100 percent their responsibility, meaning the ICTC, and not the Government——

Mr. Austin. In practical application, you are right, Congressman, but in reality, if the ICTC cannot make their Rent payments, the Federal Building Fund stands behind to bear those costs to the developer, to the PADC.

Mr. Petri. Could I follow that one step further?

Would there be any possibility or practicality as this building move forward in asking the ICTC to enter into some kind of a several year lease arrangement with some—whatever it is so that we could see if there is anyone out there who is willing to operate these theaters, and if so, with how much subsidy. And then we can sign off on it or not and use the space for something else. Once you have built the theater, it is not very easily convertible space, and it certainly will all look rather foolish trying to reconfigure a series of four or five money-losing theaters two or three years after they were built on Pennsylvania Avenue. You know, you fellows have to think it through very carefully.

People will have to be moving in and out. Dual use of parking space sounds fine, but what if a department is a 24 hour a day broadcasting operation? Their guys are going to be using a lot of the parking space, and they are going to want to have access to it and so on. And I can see everyone saying, well, you built these theaters and there is no way to get to them and a lot of people do not live near a subway where their house is, And if they are going to be going home at night after the thing, they are not going to want to take the subway.

So, you have a lot of practical problems that any businessman would be going through before he would sink his own money into something like this. And the fact no one has in Washington would indicate that we are maybe a little bit ahead of the market.

You have never misled anyone that it is going to make money. And it may have some overall benefits to the country, but we have to have some way of understanding whether the benefits are at all in line with the subsidies and risks involved.

Mr. SPARKS. Congressman, we appreciate your concern and your counsel and the Chairman's counsel on this, and we will do our best to put the kind of business plan before you as soon as possible that gives you some assurance on this or we will change the program.

Mr. PETRI. Thank you.

Mr. Bosco. One quick question. If you do decide to eliminate, say, one or two theaters or whatever, would you have to go out for another request for proposal, or can this be redesigned within a change order or something less ominous than a completely new request?

Mr. HAUSER. I would not think that it would have to be rebid in any fashion. It is something I have not given a lot of thought to.

Mr. Bosco. Well, you do not need to tell us now, but I would like to know that.

Mr. BRODIE. I would not think so either, Mr. Chairman.

Mr. Bosco. Because I have noted that these theaters, at least in any recognizable form, were not in the development plan submitted to the committee in 1988. I know that there was discussion of theaters, but this is I think the first time now that we are talking about all five of them. So, I think that may be the reason that you are getting more scrutiny about them now than maybe you expected.

Mr. Lewis.

Mr. LEWIS. Thank you, Mr. Chairman.

Mr. Austin, when does GSA anticipate signing the lease?

Mr. AUSTIN. Right now we have given a worst case date, and that is early June. It could happen earlier than that.

Mr. LEWIS. It is not too long from now.

Mr. AUSTIN. Well, it depends on one's perspective. There are those who would suggest it is quite a ways a way.

But after the Inspector General and the Acquisition Policy office has identified, or at least had an opportunity to review, any deficiencies or changes they would like to see in our leases—there is, as I said earlier, Congressman, a second consideration we are waiting for and that is for the total financial picture to come together. And while we may have an agreement that $738 million looks like the approximate cost of the construction, as Mr. Hauser indicated, they are still 30 days away from having the final financial packages together.

Mr. **Lewis**. Mr. Hauser, let me go back to a point I tried to raise earlier. On November 14 of last year, you told us that Delta's affirmative action plan was above average. Does that mean of the seven plans, four were worse than Delta's?

Mr. **Hauser**. No. Again, I feel some constraints here because of pending litigation. But what that means is it exceeded the criteria set forth in the prospectus. It met all the factors and it was above average in that respect.

Mr. **Brodie**. I might just comment on the words, Congressman, because they are words that we chose.

Mr. **Lewis**. Break them down, make them simple, so I can understand. Above average, what are you talking about?

Mr. **Brodie**. Well, first I should start with all of the seven proposals that were submitted met, in our view, the criteria that we went over before. So, they were all acceptable to us. They all met the mandatory submission standards.

We then spent more time trying to clarify and make sure we understood precisely what was in those plans. Arthur Fletcher, who has been our Vice Chairman, would be with us today, but he is getting further improved by some doctors. It was under his guidance, because he has chaired our standing Affirmative Action committee, the PADC Board's standing Affirmative Action committee, for some time. And Art, both in the presentations and in follow-up questions which we asked in writing, to each team, to give us more material, give us more background etc.

Why did we spend all this time? We wanted no fronts. We did not want Oreo cookies. We did not want any of the facades that people have erected in the field of affirmative action, saying here is a nice looking picture, which falls apart later on, and we do not see real people and we do not see real results.

So, as a result of all that scrutiny—and there are literally piles of material back in our office of not only how each team was going to meet the goals, but what was their performance in the past. We said: "Show us contracts. Show us real figures. We went through all of that."

As a result of that review, we said that the lowest word was an "acceptable" proposal. Above that was "average." Above that was "above average", the category in which we placed Delta. And above that was "superior." Those were the words we chose to describe the evaluation. So, "acceptable", "average", "above average" and "superior." And Delta in our evaluation was "above average."

Mr. **Lewis**. Would you be free or at liberty to provide this member in writing with the methods that you used to evaluate the different proposals?

Mr. **Hauser**. We will do that.

Mr. **Lewis**. Thank you.

Mr. Chairman, my last question. The press has reported that both of the entities with which PADC is to consult before awarding the contract recommended a firm other than Delta. Indeed, according to the press reports, Delta was not ranked among the top three firms by one of those entities. Yet, PADC selected Delta. Why? Why was it that apparently no weight was given to the recommendation of ICTC and GSA?

Mr. **Hauser**. I assume that is directed at me.

Mr. **Lewis**. Yes, sir. [Laughter.]

Mr. **Hauser**. One can always hope.

Well, I won't comment on the press reports, but I will say that it is no secret and it was announced at the time of the board's decision as to what the GSA and ICTC recommendations were. We consulted with them. They participated in the process all along. We were mandated to consider the recommendations, and I can say that the recommendations were, indeed, considered.

The PADC has its own responsibilities, and it is composed of individuals of independent thinking and itself as a board is independent. And as a result of consideration of the GSA recommendation, the ICTC recommendation and based upon consideration of the criteria, the staff analysis that was done of this project, the Delta project was chosen. And I think it is as simple as that.

Mr. **Lewis**. Thank you very much.

No other questions, Mr. Chairman.

Mr. **Bosco**. Thank you.

Mr. Lightfoot.

Mr. **Lightfoot**. Thank you, Mr. Chairman.

With reference to Mr. Lewis' question about signing the lease, there is a philosophy out in my country that one way to shorten up a long, hot summer is to take out a 90 day note on the first of June. [Laughter.]

If that applies to this or not, I am not sure.

Mr. Roth, USIA says that you need 200,000 additional square feet. We have Federal tenants in the building. And maybe in light of the discussion we had about the theaters, do you have any recommendations or ideas on what could be done to acquire the other 200,000 square feet?

Mr. **Roth**. Mr. Lightfoot, I feel that we have gotten very good support from the GSA and from the PADC in trying to solve this problem.

As I pointed out in my opening statement, however, we feel that it is essential that we move in as a totality. The full 800,000 square feet because that is a considerable shrinking of the amount of space that we currently hold. Therefore, we need to carefully plan the move from the very outset. We feel that both from the point of view of efficiency and the point of view of the economies that we will obtain in placing ourselves in the building, that we really have to come in as a full entity.

We feel it is unfortunate we have not been able to resolve this up to now. We suggested that we really look at all of the possible tenants in light of priorities of both the ICTC program and of the original act. We might very well get a configuration because there has been a tendency to sort of allot these out on the basis of whoever happened to come to the window first.

I would not have any particular thought. We have participated in the development of the ICTC program, and we feel it is a sound program.

Mr. **Lightfoot**. You wouldn't take a theater.

Mr. **Roth**. We would have some use, sir, for theater or auditorium type facilities in our program.

Mr. LIGHTFOOT. If you do not get the additional square footage that you legitimately feel that you need, how is this going to impact your operation?

Mr. ROTH. Well, we have looked into the possibility with the GSA of other sites in the Washington area where we can consolidate. Ten years ago when we sent our things around the world mostly by packet, we did not need to be together. But now we feel we do. The technical facilities that we now have require us to be in a single location.

Unfortunately, GSA has not come up with any other site, and certainly not one where the compatibility of ourselves with the organization that will be the primary purpose of the building providing the kind of outreach that we can provide through the Voice of America, through worldwide television and our broadcasting, et cetera. It is just such a natural match that we would hope it could come about quite economically.

Mr. LIGHTFOOT. You view that, though, as a major problem?

Mr. ROTH. The cost?

Mr. LIGHTFOOT. No, the lack of being able to put everything together.

Mr. ROTH. Yes, not being able to go into together would be very serious and I think we would have to reconsider it.

Mr. LIGHTFOOT. Mr. Austin, I guess before I ask to my question, I will go back to our conversation of the other day that we had with the chairman about moving out of Washington, D.C. I found a wonderful little acreage with a horse barn on it that I know you will just love out in the midwest.

Mr. AUSTIN. Well, Congressman, I am from the midwest, and I would probably like it. [Laughter.]

Mr. LIGHTFOOT. We are not going to give up on that issue.

Mr. BOSCO. We may have to look for him there if these theaters don't work out. [Laughter.]

Mr. AUSTIN. I figured it would get back to GSA somehow. I wasn't sure how. [Laughter.]

Mr. LIGHTFOOT. With the way that the trade center space is designed to be convertible to office space if necessary, have you done any projections into what it would cost to do that?

Mr. AUSTIN. Yes, Congressman, we have. As I said, in preparing for a worst case scenario, it would cost us about $208 million to restructure the space occupied by the ICTC. That is figured in the year 2003, when we would do that renovation, given the design time, four and a half years' construction time, the time between now and occupancy, and that intervening time for evaluating the success or failure of the ICTC.

One of the dangers with the theater concept is how you compute them, by volume or cubic square feet. They obviously could be many stories high and multiple floored. However, for calculation purposes, you only calculate the square footage of the floored area so that if you start changing these areas over to office space, we are going to have to come in and change the 1.8 million square feet allowed above grade. We would have to waive that. And I do not know how receptive some may be to doing that.

That is the reason we talk about trying to accommodate USIA with the proposal we offered. We have been able to recommend capturing about 87,000 square feet underground on one of the parking levels for a cost of about $15 million. That gets USIA closer to 700,000 square feet. But we have a problem there as well, the overall project is capped at $3.1 million, and you would have to legislate any enlargement to that cap.

To answer your question, yes, we have those figures available. We have calculated them. We are comfortable with them, providing everything else goes into place. But recouping that space would be the worst case or last ditch effort that would have to be made.

Mr. LIGHTFOOT. Did you break that down on a per square footage cost?

Mr. AUSTIN. About $170 a square foot.

Mr. LIGHTFOOT. Okay.

Thank you, Mr. Chairman.

Mr. BOSCO. Thank you.

[Mr. Austin's prepared statement appears on page 180.]

[Mr. Percy's prepared statement appears on page 124.]

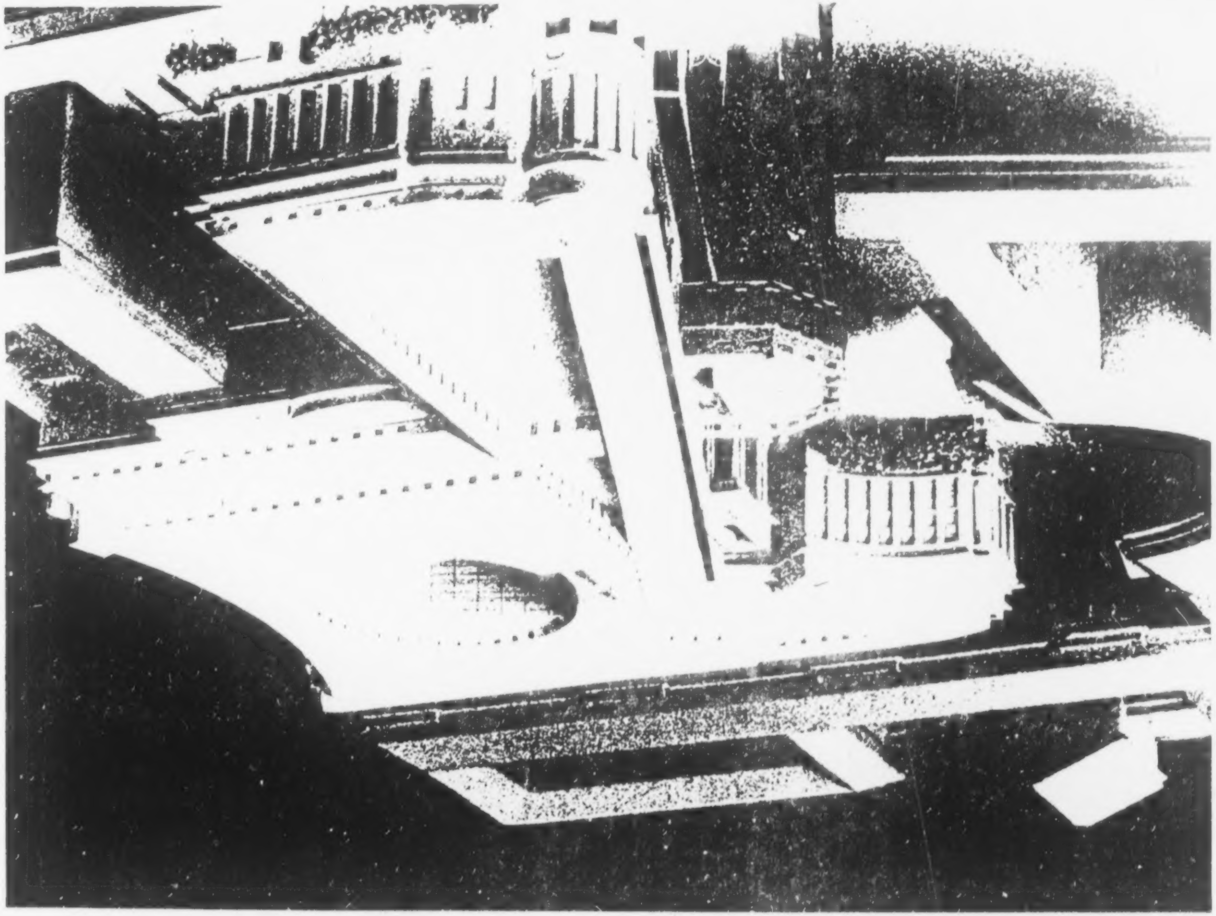
[Mr. Hauser's prepared statement appears on page 184.]

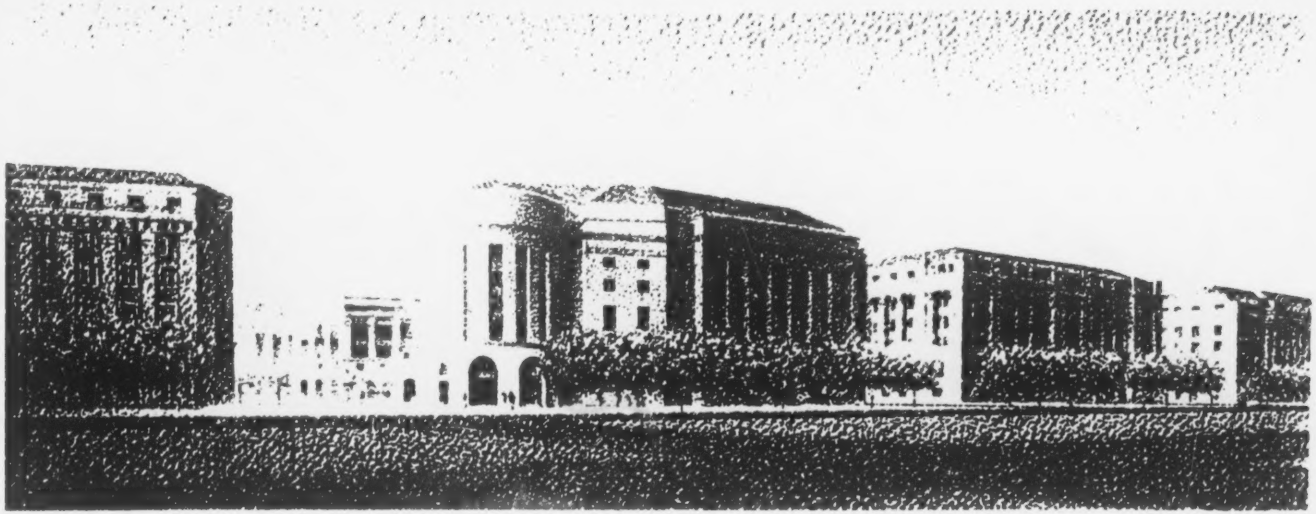
[Mr. Roth's prepared statement appears on page 190.]

Mr. BOSCO. If there are no other questions or comments, I think we will adjourn the meeting.

I want to thank all of our participants and witnesses today. It has been a very productive meeting. It is my hope now to move forward and bring the staffing bills and whatever before the committee so we can get going on this whole project. Thank you all very much.

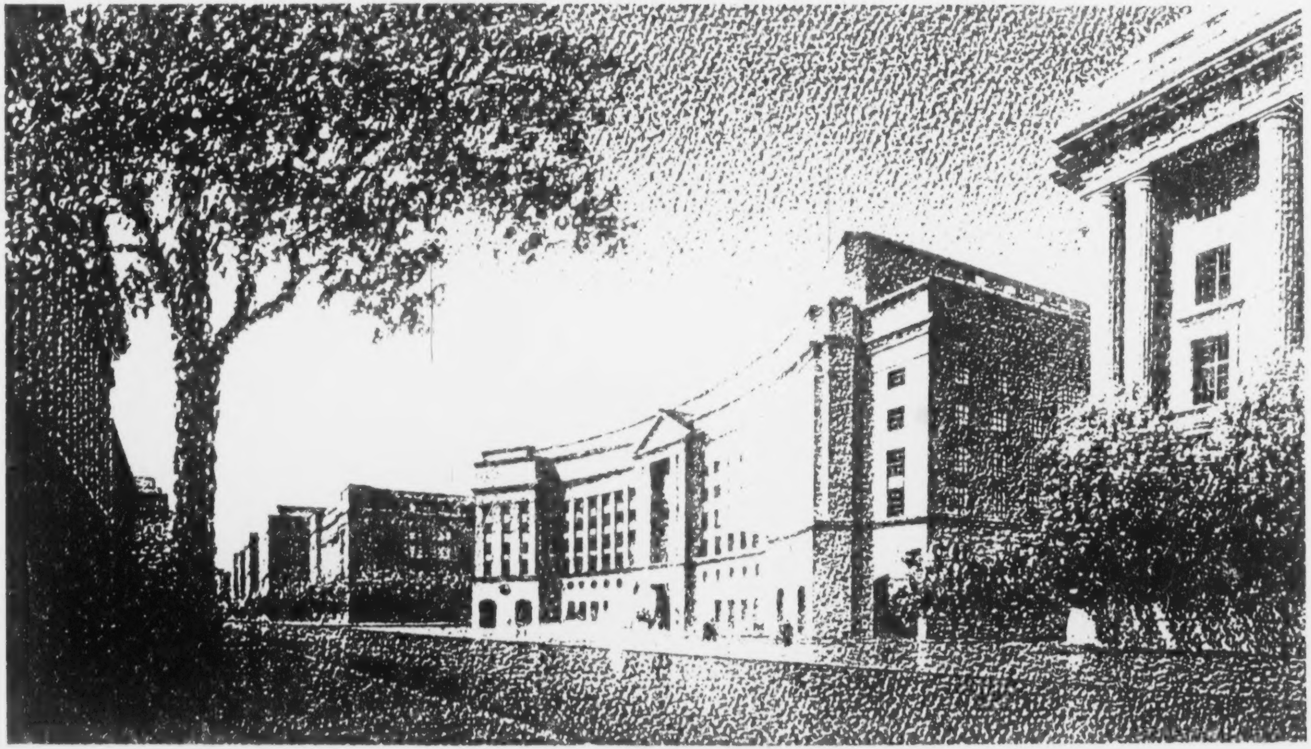
[Whereupon, at 12:25 p.m., the subcommittee was adjourned, to reconvene at the call of the Chair.]



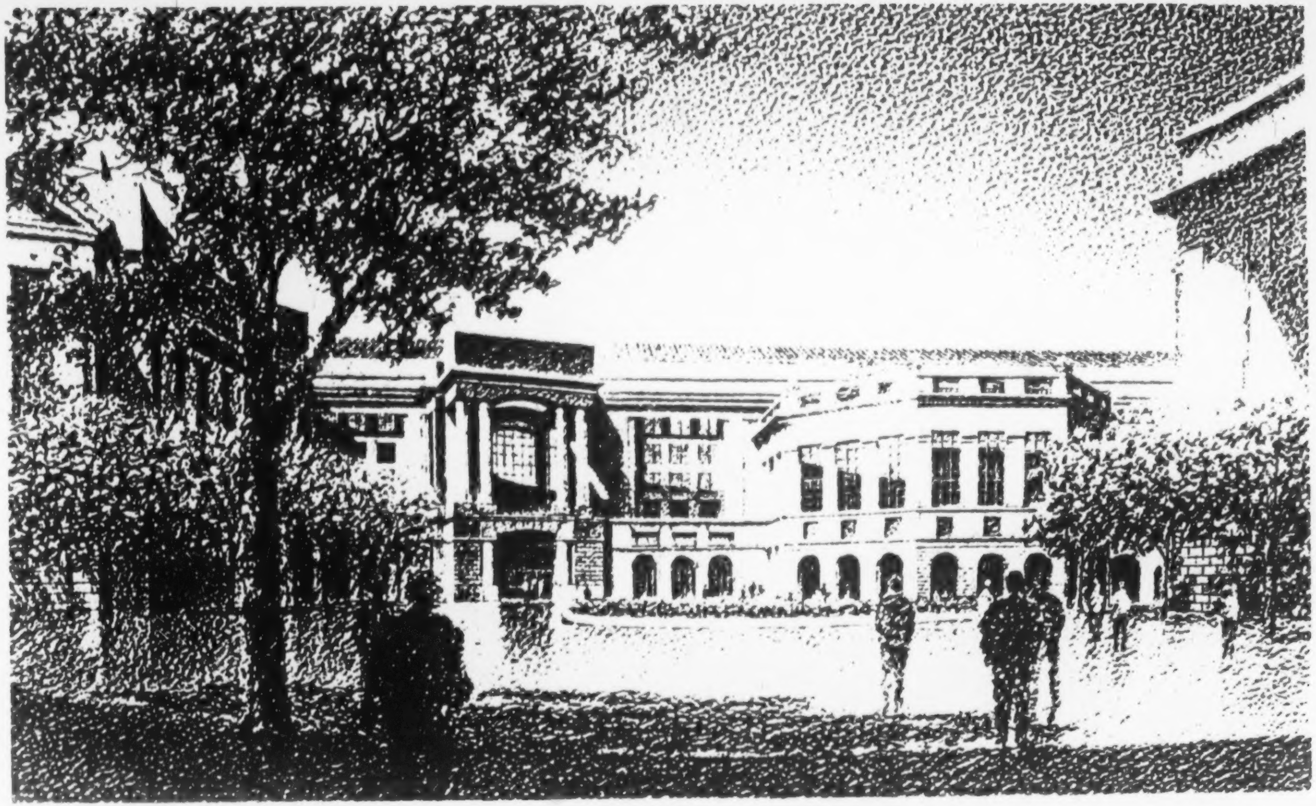


19. View at Pennsylvania Avenue Looking Southwest

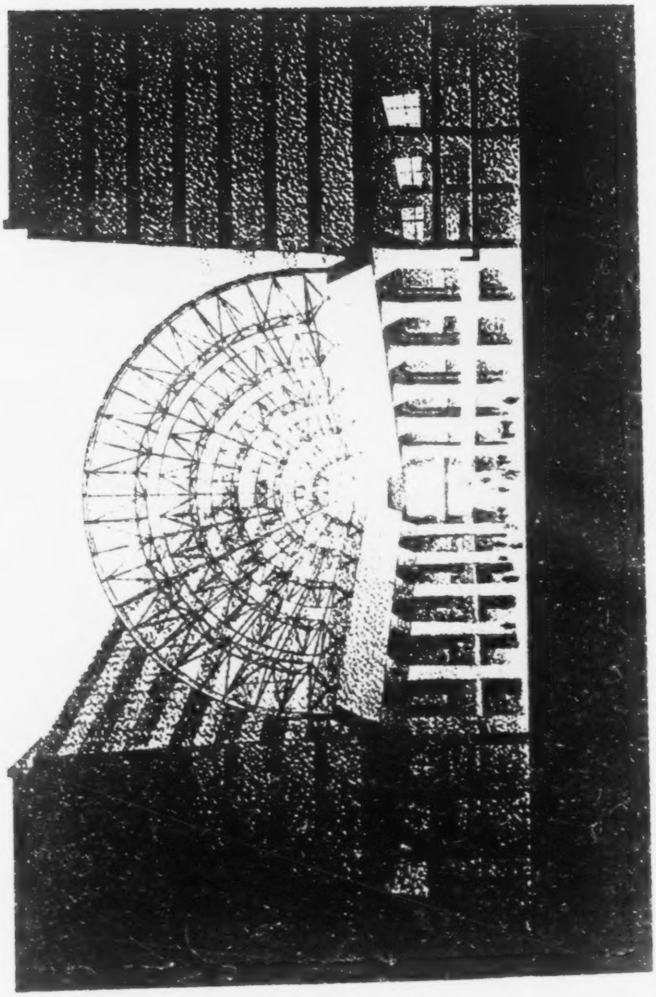
THE
FEDERAL
TRIANGLE
DEVELOPMENT



18. View at Fourteenth Street Looking Northeast



20. View at Hemicycle Court Looking West



21. Sectional View at World Link Looking West

THE
FEDERAL
TRIANGLE
DEVELOPMENT

U.S. International Cultural and Trade Center Commission

Budget Authorization Request

Description	FY 1990	FY 1991	FY 1992
Personnel	853,000	2,147,000	3,065,000
Benefits	186,000	429,000	787,000
Total Pers Compensation	1,039,000	2,576,000	3,852,000
Travel	75,000	100,000	154,000
Rent	241,000	241,000	371,000
Communications	50,000	60,000	93,000
Printing	100,000	100,000	154,000
Contracts	1,250,000	705,000	1,089,000
Supplies	50,000	50,000	77,000
Equipment	80,000	100,000	154,000
TOTAL	2,885,000	3,932,000	5,944,000
Budget Request	2,900,000	4,000,000	6,100,000
Full-Time Positions	25	50	75

PENNSYLVANIA AVENUE DEVELOPMENT CORPORATION

Suite 1220 North
1331 Pennsylvania Avenue, N.W.
Washington, D.C. 20004-1703
202/724-9091

Richard A. Hauser
Chairman

M. J. Brodie
Executive Director

January 3, 1990

The Honorable Douglas H. Bosco
Chairman
Committee on Public Works and Transportation
Public Buildings and Grounds Subcommittee
U.S. House of Representatives
Room 2165, Rayburn House Office Building
Washington, D.C. 20515

Re: The Federal Triangle Development Site (FOB/ICTC)

Dear Mr. Bosco:

This letter will supplement my testimony at the November 14th, 1989 hearing on the Federal Triangle Development site by providing additional information on project costs. During this intervening period, PADC, GSA and ICTC staff have been negotiating with representatives of the Delta Partnership (the developer selected on October 18th, 1989 by the PADC Board) to finalize the Development Agreement (which will include a Project Budget). It is our expectation that this process will be completed by February 13, 1990. In addition, the staff, at the Board's direction and with the assistance of our financial advisor, Kidder, Peabody & Co., has been developing a Request for Proposal (RFP) to select an underwriting team to provide the most cost effective financing for the project. The RFP was released on December 27, 1989 and proposals are to be submitted no later than January 16, 1990.

By way of background, each development team in the competition was required to submit a detailed cost estimate for its proposal and, in order to check the developer's costs, PADC prepared a cost estimate of each proposal employing independent cost estimators.

PADC's estimates of the total cost to design, finance and construct the Project, based on the proposals presented by the development teams, ranged from $638,780,000 to $751,660,000 and our estimate of the office rental per occupiable square feet ranged from $28.14 to $31.82. PADC's estimate of Delta's proposal was $665,095,000 and their office rental per occupiable square feet was therefore $29.61.

Contrasted with past estimates of project costs, which could only be based on generalized hypothetical designs, these costs now reflect the following:

1. Approximately $56.2 million for the fully-developed ICTC program, including four (4) theatres (a 1500 seat legitimate theatre, a film theatre seating 500, a film theatre seating 300 and a "black box" theatre seating 300), 120,000 square feet of retail/food service space, 130,000 square feet of exhibit space (including a large screen theatre, the World Link exhibit, the Walk-Around-The-World exhibit and temporary exhibit space), Reception/Club space of 30,000 square feet and 130,000 square feet of office space...totaling 500,000 square feet...as well as ICTC's fit-out and equipment requirements.

2. Approximately $54.5 million for increase in interest based on average development cost and increases in interest rates between June, 1988 (date of submission of the Development Proposal to Congress) and August 2, 1989 rates--used both by the developers and by PADC.

Approximately $15.6 million increased cost attributable to the extension of the project's construction period by approximately six months to November, 1994 for an achievable schedule.

Approximately $15.0 million for increased cost in the below grade portion of the complex, particularly under the existing Hemicycle and adjacent access to the Federal Triangle.

Approximately $3.5 million for tunnels to the Department of Commerce and to the Mellon Auditorium.

Approximately $2.0 million to remove recently discovered on-site contaminants.

It should be noted that these cost projections cannot include, at this time, GSA's final tenancy program or program modifications requested recently by the ICTC, requiring design changes currently being investigated. Based on current figures, however, the net occupiable office rental rate for the ICTC/FOB building compares favorably (at projected 1994 dollars) to other buildings in the Pennsylvania Avenue area. In making this comparison, it should be emphasized that while commercial rents provide no ownership potential at the end of the lease, the annual leasing costs of the ICTC/FOB include full amortization of all development costs over a 30-year period, at the end of which the Government will own the building.

If you have any questions, please do not hesitate to call me.

Sincerely,

Richard A Hauser

Richard A. Hauser
Chairman

PENNSYLVANIA AVENUE DEVELOPMENT CORPORATION

Suite 1220 North
1331 Pennsylvania Avenue, N.W.
Washington, D.C. 20004-1703
202/724-9091

Richard A. Hauser
Chairman

M. J. Brodie
Executive Director

March 2, 1990

MEMORANDUM TO THE PADC BOARD OF DIRECTORS

FROM: M.J. BRODIE
EXECUTIVE DIRECTOR

Late yesterday (3/1/90) afternoon, we were informed that the Saratoga Development Corporation (Potomac, MD), one of the seven (7) development teams that submitted a proposal in the Federal Triangle/FOB/ICTC competition, had filed a lawsuit against the United States of America and the Pennsylvania Avenue Development Corporation.

A summary of the complaint, prepared by our staff, is enclosed along with a Statement that we are using to respond to inquiries. If you have questions about this matter or if you receive inquiries, please contact either Robert McCally, General Counsel, at 724-9088 or 724-9078; Madeleine Schaller, Deputy General Counsel, at 724-9088 or 724-9055; or me at 724-9073.

PENNSYLVANIA AVENUE DEVELOPMENT CORPORATION

Suite 1220 North
1331 Pennsylvania Avenue, N.W.
Washington, D.C. 20004-1703
202/724-9091

Richard A. Hauser
Chairman

M. J. Brodie
Executive Director

STATEMENT
OF
PENNSYLVANIA AVENUE DEVELOPMENT CORPORATION

MARCH 2, 1990

THE FOLLOWING STATEMENT IS ISSUED BY THE PENNSYLVANIA AVENUE DEVELOPMENT CORPORATION (PADC) IN RESPONSE TO A CIVIL SUIT FILED IN UNITED STATES DISTRICT COURT ON MARCH 1, 1990 BY SARATOGA DEVELOPMENT CORPORATION:

> Beginning in November 1988, PADC conducted an open competition for the Federal Triangle/FOB/ICTC development site, received seven (7) proposals on June 1, 1989, and on October 18, 1989, selected the Delta Partnership. The Delta Partnership is comprised of the Perini Corporation as Construction Manager; Pei Cobb Freed & Partners and Ellerbe Becket, Inc. as the Project Architect; and a partnership formed by the principals of the Zeckendorf Company, Silverstein Properties, Inc., The Hapsmith Company, and Mendelsohn Associates as the Project Manager.

The Delta Partnerhsip received seven of the thirteen votes of the PADC Board. Saratoga, one of the six unsuccessful competitors, received no votes from the Board.

The Pennsylvania Avenue Development Corporation believes that the competition for the Federal Triangle Development Site was conducted properly and that all proposals submitted received fair evaluation and full consideration. We believe that the Board made a reasoned decision based upon the selection criteria set forth in the Prospectus.

We are reviewing Saratoga's complaint and will respond vigorously and fully in court. We are confident that the selection process and the Board's decision will withstand legal challenge. We trust that this matter will be resolved promptly so that this major project will not be delayed.

Summary of Relief Sought and Allegations Made in Saratoga Development Corporation v. United States of America and the Pennsylvania Avenue Development Corporation

Saratoga Development Corporation has filed suit in U.S. District Court challenging the Federal Triangle competition and selection. The suit seeks (1) to enjoin PADC from executing any legal documents resulting from the award to Delta Partnership and to cease performance under any contract already awarded to the Delta Partnership; (2) to obtain a declaratory judgment that the award to Delta Partnership was illegal, improper and in violation of the law and that Saratoga must be awarded the project or that the competition must be reopened; and (3) to obtain money damages in the amount of not less than twenty million dollars.

The suit alleges (1) that the Delta Partnership did not supply evidence of a construction financing commitment in its initial submission, and that PADC acted illegally in deleting the financial experience selection criterion; (2) that Delta's affirmative action plan was inadequate, and that PADC violated the law when it passed a resolution allowing the selected developer to fulfill the minority participation requirement by the post-award hiring of minorities and women from unsuccessful teams; (3) that PADC's waiver of the construction financing and affirmative action criteria after receipt of best and final offers deprived Saratoga of an opportunity to respond to PADC's actual evaluation criteria; (4) that PADC illegally allowed one or more Board members to vote for Delta without having attended the development team oral presentations; (5) that PADC did not evaluate proposals and select a developer based on the submissions received, but that PADC selected a proposal with the intention of changing inadequacies after selection; (6) that PADC materially changed design specifications and allowed Delta to engage in technology transfusion after selection; and (7) that PADC has approved changes which increase the project budget to nearly $850 million. The suit claims that the alleged actions violate the Administrative Procedures Act, specifically 5 U.S.C. 706, the Competition in Contracting Act, and the common law, permitting the U.S. District Court to set aside the Corporation's action if it is found to be arbitrary and capricious, an abuse of discretion, or otherwise not in accordance with the law.

The staff is working with the U.S. Attorney's office in responding to the suit.

PENNSYLVANIA AVENUE DEVELOPMENT CORPORATION

Suite 1220 North
1331 Pennsylvania Avenue, N.W.
Washington, D.C. 20004-1703
202/724-9091

Richard A. Hauser
Chairman

M. J. Brodie
Executive Director

MEMORANDUM

To: Richard Hauser
Chairman

FROM: M. J. Brodie
Executive Director

Date: March 5, 1990

Subject: Federal Triangle Direct Construction Cost Review

After the PADC Board's selection of the Delta Partnership on October 18, 1989, Delta's construction manager, the Perini Corporation; project architect, Pei, Cobb, Freed and Associates, and Ellerbe Becket, Inc.; PADC staff and PADC construction consultant, Gilbane/Jackson; ICTC staff; and GSA staff were instructed to review the submitted project design and cost to arrive at the most accurate cost estimate possible.

The following chart is a summary of the major cost changes to the project's direct construction cost of $444.5* million made by the Delta Partnership at the time of their selection in October, 1989. The revisions to this original estimate total $106 million bringing the direct construction costs, at the developer's submission of the development agreement in February, 1990, to $550.5 million. (*$482.8 million minus $38.5 million for insurance costs).

REVISIONS

Concrete structure (Based on additional information from project architect)	+$11.0 million
Exterior Wall (Revised estimate for limestone)	+$ 4.5 million
Utility Relocation (Based on additional site studies)	+$ 3.0 million
Site and Landscaping (Based on additional information from project architect)	-$ 1.0 million

Page 2

Complete Ariel Rios Building (Based on additional information from project architect)	+$ 2.0 million
Roofing, Terrace and Skylights (Based on additional information from project architect)	+$ 2.0 million
Miscellaneous/Ornamental Metal (Revised estimate)	+$ 2.0 million
Exterior Doors and Windows (Based on additional information from project architect)	+$ 2.5 million
Finish in Interior Public Areas (Based on additional information from project architect)	+$10.0 million
Specialties - Signs, Directories, Postal Facility and Graphics (Revised Estimate)	+$ 3.0 million
Miscellaneous Items (Revised Estimate/cost escalations)	+$10.0 million
Insure Construction Contingency	+$20.0 million [illegible]
TOTAL:	+$69.0 million

In addition, the following changes were requested by GSA...and are incorporated in the Project Budget.

- Concrete Floor Sealer for Garage	+$ 2.0 million
- Interior Nine-foot Wood Doors	+$ 5.0 million
- Federal Office Building Above-Standard Build-Out	+$30.0 million
GSA REQUESTS TOTAL:	+$37.0 million
TOTAL	$106 million

Note: The above numbers have been rounded and account only for the major revisions to the direct construction costs. The numbers are for summary purposes only and should not be used for evaluation of design changes or budget reductions without a review of the detailed estimate.

MJB/llc

STATEMENT OF RICHARD A. HAUSER
BEFORE THE
U.S. HOUSE OF REPRESENTATIVES COMMITTEE ON
PUBLIC WORKS AND TRANSPORTATION
SUBCOMMITTEE ON PUBLIC BUILDINGS AND GROUNDS
MARCH 8, 1990

Good morning Mr. Chairman and Members of the Subcommittee. Thank you for inviting me to present testimony on the status of the Federal Triangle International Cultural and Trade Center (ICTC)/Federal Office Building (FOB) complex including the draft legislation. I am accompanied by PADC Executive Director Jay Brodie.

STATUS OF ICTC/FOB PROJECT

I am pleased to report to you that, working closely together with GSA and with the ICTC Commission and staff, significant progress has been made since your last hearing on November 14, 1989.

A major milestone was met on February 12, 1990 when, after several months of intensive negotiations involving PADC, GSA and ICTC personnel, the Delta Partnership development team (selected by the PADC Board on October 18, 1989) executed and delivered all required documents, including the Development Agreement and eighteen (18) other documents to PADC. Mr. William Zeckendorf's letter to me and my response are attached as Exhibit 1 to my Statement. On that same date, GSA delivered the the deed to the property to PADC.

I have asked the PADC staff to continue our detailed review, with GSA and ICTC, of every aspect of the design, specifications and construction costs so that all parties will have a complete understanding of these important matters before the Master Lease and Development Agreement are executed by the U.S. Government.

Other items of progress include

- The Commission of Fine Arts and the National Capital Planning Commission (NCPC) approved the design concept and made constructive suggestions about areas of further design study in the following Schematics and Design Development stages.

- In accord with our Memorandum of Agreement under the Section 106 Historic Preservation Process, we have requested and received advisory comments from the D.C. Historic Preservation Office and from the Advisory Council for Historic Preservation; their comments are being reviewed with the development team.

- Completion of our review of the many competitive submissions, in response to our Request for Proposals, for the Construction Consultant team to assist the Government in the complex tasks of project management.

- Regarding financing, following-up the PADC Board's October 18, 1989 Resolution (a copy is attached as an Exhibit 2 to my Statement) to pursue a separate open competition, we developed -- in cooperation with GSA and ICTC -- a Request for Proposals for the lead underwriter and co-managers, received proposals on January 31, 1990, conducted two days of presentations on February 20 and 21 and are in the process of completing our evaluations. The benefit of a separate competition has been shown by both the quantity and quality of the proposals received.

- In the important area of Affirmative Action, the developer and our staff have been meeting with many individuals and groups, including the District of Columbia Contractors Association, to identify every possible area of opportunity for minority businesses. We are confident that as a result of this consistent effort, the project will be a model for minority participation.

As you may know, before voting on the development team proposals on October 18, 1989, the PADC Board, consistent with its interest in maximizing every developer's Affirmative Action efforts, passed a Resolution, strongly endorsed by Mr. Arthur Fletcher, Chairman of the Board's Affirmative Action Committee. A copy is attached as an Exhibit 3 to my Statement.

The subcommittee should be aware that on March 1, 1990, Saratoga Development Corporation, one of the losing teams in the development team competition, filed suit in U.S. District Court challenging the selection process. The PADC Board took a number of actions including my June 12, 1989 Memo and the Board's Resolution of June 21, 1989 (copies are attached as Exhibit 4 to my Statement) to ensure the integrity and fairness of the process. While we believe it would be inappropriate to discuss the particulars of Saratoga's complaint, the Board made a reasoned decision based upon the selection criteria set forth in the Prospectus. We are confident that the selection process and the Board's decision will withstand legal challenge.

AMENDMENTS TO THE FEDERAL TRIANGLE DEVELOPMENT ACT

As to the Staff Working Draft of Amendments to the Federal Triangle Development Act, PADC supports the Amendments, most of which were initiated by the ICTC Commission. Relative to

Sections 2 and 3, both intend to set out with more specificity various aspects of the original Act, my comments are as follows:

Section 2. Applicability of State and Local Sales, Use and Similar Tax Laws would ensure that the Developer would not be subject to taxes under circumstances where the GSA would not have to pay taxes; to the extent that GSA would not be exempt, then the Developer also would not be exempt.

Section 3 Private Sector Sub-Financing. The Corporation believes it has, under current law, the full authority necessary to obtain the financing necessary for the development of the Federal Triangle property pursuant to its enabling legislation and the original Federal Triangle Development Act enacted in 1987. The proposed amendment merely clarifies, consistent with the original Act, that the Corporation has the authority to use financing techniques such as a trustee issuing debt obligations secured by an interest in the rental payments to be made by GSA under the Master Lease. We are advised that the language will be beneficial in obtaining the most favorable financing for the project. This financing technique was used recently by the National Archives and the Architect of the Capitol under similar grants of authority. We would appreciate the opportunity to work with your staff on any refinements to the language of the current draft Amendments.

TENANCY

Regarding the tenancy issue, we anticipate GSA's resolution of this matter -- and, of course, your approval -- so that the specific space and specification needs of the tenants are provided for in the design without delaying the project.

PROJECT COSTS

Regarding project costs, a Project Budget was included as part of the Development Agreement submitted by the developer on February 12th. Project Budgets were submitted by each team in the competition based on their conceptual design. However, only after the development team was selected could government and development team architects, construction staff and estimators meet to review each element of the proposed design and specifications and their respective costs, as well as discussing such important matters as the appropriate level of contingency funds. That thorough review resulted in the following:

Hard Construction Costs	
Direct Construction Costs (including $20,000,000 in contingencies)	$550,491,171
Construction Manager Fee	15,581,000
Construction Managers Administration	20,600,000
Development and Construction Contingency Fund	26,025,000
Soft Construction Costs	
Project Architect Fees	26,266,000
Developers Fee	22,500,000 1/
Developers Administration	7,592,172
Fixed Items	65,000,000 2/
Miscellaneous	3,542,500 3/
Interim Financing	700,000 4/
Project Cost	$738,297,843...excluding financing costs

1/ Developers Fee may range from $13.5m to $22.5...$22.5 is only achievable if project is completed 15 months ahead of schedule.

2/ Increase, from $30.m, as a result of $35m for owner-controlled insurance program.

3/ Includes legal, accounting, permits/licenses, etc.

4/ Assumes developer obtains Interim Financing from current date to date of project financing after GSA approval of Master Lease. We are exploring, in cooperation with GSA, a method of assisting the developer in securing such financing, to avoid any delay in beginning contaminant removal utility relocation and similar construction work.

A summary of the major cost changes to the project's total costs is attached as Exhibit 5. Our Financial Advisor, Kidder-Peabody, calculated that, beginning at project completion in 1994, the estimated rent payment of $25.70 per gross sq. ft. or $42.83 per occupiable sq. ft. will cover the total development cost ($738 million) and financing cost ($128 million) for the Project. In addition:

- That rental payment will remain constant for the thirty year life of the lease (1994 to 2024).
- At the end of the lease term, and at no additional cost, the Government will own the building.

By comparison, net occupiable office rental rates in the recently-completed Evening Star Building on Pennsylvania Avenue and 11th Street, N.W., translated into the same 1994 dollars as above, will range from $39.70 to $56.72 per sq. ft.

But Congress envisioned the ICTC/FOB complex to be much more than another office building. Within the ICTC portion of the complex are:

- Four (4) theatres (a 1500 seat legitimate theatre, a film theatre to seat 500, a film theatre to seat 300 and a

"Black Box" theatre to seat 300).

- Exhibit Space, 130,000 sq. ft., including a large-screen IMAX theatre-type space, the World Link Exhibit, the Walk-Around-The-World Exhibit and temporary exhibit space.

- Retail Space, 120,000 sq. ft., including merchandising and food service.

- Club/Reception facilities, 30,000 sq. ft.

Mr. Chairman, we are confident that an excellent ICTC/FOB complex can be developed within these cost parameters subject to interest rate changes that are, of course, beyond our control. In other words, any proposed future refinements to the program/design would be expected to occur within that cost framework. Finally, Mr. Chairman, we believe that the Board's decision in selecting the Delta team and design will fulfill the Congress' mandate that the development "...be designed in harmony with historical and Government buildings in the vicinity,...reflect the symbolic importance and historic character of Pennsylvania Avenue and the Nation's Capital, and...represent the dignity and stability of the Federal Government."

Thank you for the opportunity to discuss these matters. I would be pleased to respond to any questions.

EXHIBIT 1

February 12, 1990

Pennsylvania Avenue Development Corporation
Suite 1220 North
1331 Pennsylvania Avenue, N.W.
Washington, D.C. 20004-1703
Attention: Richard A. Hauser, Chairman

Dear Mr. Hauser:

Since we received the award to negotiate the right to develop the ICTC/FOB Project on October 18, 1989, we have been pleased at the progress made in a relatively short time period to complete the very complex and lengthy documentation process. Today, Federal Triangle Corp. (the "Developer") and the other members of the Development Team have executed the documents described on Schedule A to this letter. We understand that the documents are acceptable to you and that Pennsylvania Avenue Development Corporation ("PADC") is prepared to sign them. We further understand, however, that, upon delivery, PADC will hold our documents pending execution and delivery of the Master Lease Agreement by the General Services Administration. At that time, you will execute and deliver all of the other documents delivered to you which are to be executed by PADC. If GSA has not executed the Master Lease Agreement on or before July 31, 1990 the letters of credit will be returned to the appropriate Development Team members and the documents will become null and void.

We are pleased at the amount of work already accomplished and we are aware of the enormous tasks ahead of us in completing this historic Project.

Very truly yours,

FEDERAL TRIANGLE CORP.

By:
William Zeckendorf, President

Schedule A

1. Development Agreement (6 counterparts)
2. Master Lease Agreement with GSA (6 counterparts)
3. Ground Lease (8 counterparts)
4. Construction Management Agreement (8 counterparts)
5. Project Architect Agreement (8 counterparts)
6. Project Management Agreement (8 counterparts)
7. Joint Inducement Letter (8 counterparts)
8. Inducement Letter--Project Architect (8 counterparts)
9. Inducement Letter--Construction Manager (8 counterparts)
10. Inducement Letter--Project Manager (8 counterparts)
11. Assignment Agreement (of Leases to Trustee) (6 counterparts)
12. Access Agreement (6 counterparts)
13. Collateral Assignment to PADC of Project Architect Agreement (8 counterparts)
14. Collateral Assignment to PADC of Construction Management Agreement (8 counterparts)
15. Collateral Assignment to PADC of Project Management Agreement (8 counterparts)
16. Stock Pledge Agreement (8 counterparts)
17. Stock Certificates of Developer
18. Assignments of Stock Certificates by WZFT Corp., L.A.S. Associates I, L.P., Hapsmith Federal Triangle, Mendelsohn Triangle Corp.
19. Letters of Credit from Construction Manager, Developer Principals and Project Architect

PENNSYLVANIA AVENUE DEVELOPMENT CORPORATION

Suite 1220 North
1331 Pennsylvania Avenue, N.W.
Washington, D.C. 20004-1703
202/724-9091

Richard A. Hauser
Chairman

M. J. Brodie
Executive Director

February 12, 1990

Mr. William Zeckendorf
President
Federal Triangle Corp.
c/o Zeckendorf Company
55 East 59th Street
New York, NY 10022

Dear Mr. Zeckendorf:

On behalf of the Pennsylvania Avenue Development Corporation, I am pleased to accept your tender of all the documents described on Schedule A to this letter, which have been executed by the Development Team in accordance with the Federal Triangle development competition. The documents are acceptable to us and we are prepared to sign them. However, as you are aware, before we can execute the documents, the General Services Administration must complete its review of the documents, and pursuant to the Federal Triangle Development Act, sign the Master Lease Agreement.

Accordingly, we will hold all documents and not utilize the inducement letters or letters of credit until the Master Lease Agreement and Development Agreement are executed by the Government. In the event the documents are not executed by July 31, 1990, the documents will be returned to you, the letters of credit will be returned in accordance with the terms of Schedule B to this letter, the documents will be null and void, and the parties will have no further obligation to each other under the documents.

We recognize that both the Development Team's representatives, and the staffs of PADC, GSA, and ICTC have worked very diligently to complete the negotiations in timely fashion.

We also appreciate the fact that the Development Team has continued to work on refining the design and other aspects of the development to keep the Project moving ahead.

THE SECON

We will transmit these documents to GSA immediately and offer to assist GSA in whatever way may be helpful to them to expedite and complete their review.

Sincerely yours,

Richard A. Hauser
Chairman

RAH:MBS:ky

Schedule A

1. Development Agreement (6 counterparts)
2. Master Lease Agreement with GSA (6 counterparts)
3. Ground Lease (8 counterparts)
4. Construction Management Agreement (8 counterparts)
5. Project Architect Agreement (8 counterparts)
6. Project Management Agreement (8 counterparts)
7. Joint Inducement Letter (8 counterparts)
8. Inducement Letter--Project Architect (8 counterparts)
9. Inducement Letter--Construction Manager (8 counterparts)
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16. Stock Pledge Agreement (8 counterparts)
17. Stock Certificates of Developer
18. Assignments of Stock Certificates by WZFT Corp., L.A.S. Associates I, L.P., Hapsmith Federal Triangle, Mendelsohn Triangle Corp.
19. Letters of Credit from Construction Manager, Developer Principals and Project Architect

Schedule B

1. The letter of credit delivered by the Developer Principals shall be returned to:

   Zeckendorf Company, Inc.
   555 East 59th Street
   New York, New York 10022
   Attention: Terry E. Soderberg
   Senior Vice President

2. The letter of credit delivered by the Construction Manager shall be returned to:

   Perini Corporation
   73 Mt Wayte Avenue
   Framingham, Massachusetts 01701
   Attention: G. Steven Orban
   Vice President

3. The letter of credit delivered by Pei Cobb Free & Partners, on behalf of the Project Architect, shall be returned to:

   Pei Cobb Freed & Partners
   600 Madison Avenue
   New York, New York 10022
   Attention: Werner Wandelmaier

4. The letter of credit delivered by Ellerbe Becket Architects and Engineers, P.C. on behalf of the Project Architect shall be returned to:

   Ellerbe Becket Architects
   and Engineers, P.C.
   300 National Press Building, N.W.
   Washington, D.C. 20045
   Attention: Nelson Cragg
   Director of Operations

EXHIBIT 2

89-13

RESOLUTION
OF THE
BOARD OF DIRECTORS
OF THE
PENNSYLVANIA AVENUE DEVELOPMENT CORPORATION

WHEREAS, the Prospectus for the development of the ICTC/FOB at the Federal Triangle site includes as one of the selection criteria the "Financial Experience, Resources, and Commitment" of an entity to provide construction and permanent financing; and

WHEREAS, the Board of Directors has determined that the selection of the financing source separately rather than as part of the development team, will allow the Corporation to take advantage of the best financing approach and to minimize costs for the Government;

NOW, THEREFORE, BE IT RESOLVED BY THE BOARD OF DIRECTORS OF THE PENNSYLVANIA AVENUE DEVELOPMENT CORPORATION that

1. The Financial Experience, Resources, and Commitment Criteria is eliminated from the Prospectus.

2. The Chairman and staff are authorized to work with the Corporation's Financial Advisor, Kidder Peabody, to structure a process for the selection of underwriters to obtain financing for the Project.

APPROVED:

Richard A Hauser

Richard A. Hauser, Chairman

ATTESTED:

Barbara S. Austin

Barbara S. Austin, Secretary

DATED: October 18, 1989

EXHIBIT 3 89-14

RESOLUTION
OF THE
BOARD OF DIRECTORS
OF THE
PENNSYLVANIA AVENUE DEVELOPMENT CORPORATION

BE IT RESOLVED that in connection with the Federal Triangle project the PADC staff and the selected development team are directed and required to do the following:

1. The selected developer shall provide, for incorporation into the Development Agreement, a list (to be supported by signed contracts) of minority firms that the developer will contract with to meet its affirmative action commitments, the dollar amount of each contract, and the dates certain that PADC can expect the developer to reach all affirmative action goals and commitments;

2. The selected developer shall make an extended, documented, good faith effort to include minority and women business participants from the development teams that were not selected by offering them opportunities to participate in the project;

3. The selected developer shall work out an agreement for first source employment with the D.C. Department of Employment Services as done in the PADC/Quadrangle Marriott Development Square 254 project. The PADC Executive Director and Mayor of the District of Columbia will identify the appropriate staff to work out the details of the agreement; additionally, ICTC and GSA staff can elect to identify staff to participate in this process; and

4. Quarterly affirmative action monitoring reports will be circulated to the PADC Board for review.

APPROVED:

Richard A Hauser

Richard A. Hauser, Chairman

ATTESTED:

Barbara S. Austin

Barbara S. Austin, Secretary

DATED: October 18, 1989

EXHIBIT 4

PENNSYLVANIA AVENUE DEVELOPMENT CORPORATION

Suite 1220 North
1331 Pennsylvania Avenue, N.W.
Washington, D.C. 20004-1703
202/724-9091

Richard A. Hauser
Chairman

M. J. Brodie
Executive Director

June 12, 1989

MEMORANDUM

TO : The Board of Directors

THRU: Richard A. Hauser
Chairman RAH

FROM: M. J. Brodie
Executive Director MJB

SUBJ: The Federal Triangle Development Site Competition; Procedures Following Receipt of Proposals

Now that proposals have been received, on June 1, 1989, this memorandum is to familiarize you with the procedures we plan to follow for the Federal Triangle Development Site. These procedures reflect the Corporation's Development Policies and Procedures and build upon the specific steps the Corporation has taken in other development competitions.

1. The seven (7) proposals received on June 1, 1989, will be treated as confidential information with the exception, through a press release, of the names of all companies submitting proposals (along with their architects and other members of each development team) and each team's model, renderings, site plan, and Pennsylvania Avenue and 14th Street elevations, which we will have on exhibit for the public to view in the PADC Conference Room.

2. The staff reviews development proposals to see if they are complete and if they include the mandatory submission requirements. The staff reports its findings to the Chairman. The Chairman will reject "submissions that do not comply with the mandatory requirements of the Prospectus."

THE SECOND DECADE

3. In a room within the Corporation's office, the staff will have copies of submissions (except for certain personal financial information) available for review by all members of the Board, and if desired by a Board member, for the review by a staff person to be designated by that Board member.

4. The staff will prepare a synopsis of all the proposals for Board members to review prior to the June 21 Board meeting and later a summary report of all the proposals for the Board. In preparing the summary, the staff may obtain additional information or seek clarification of the submitted material from the applicants. The staff will conduct a briefing for the Board on the contents of each proposal, after which Board members may present to the staff questions for transmittal to development teams.

5. At any time following receipt of proposals, the Chairman may decide to set "an open period during which [time] all developers are allowed to submit modifications" to their proposals.

6. The staff will prepare an environmental assessment of, and, using the selection criteria included in the Prospectus (listed below), analyze and evaluate all development proposals that are complete and that meet the mandatory submission requirements.

   . Development Program

   (With additional weight for an alternate parking proposal providing space for up to 2,500 vehicles, of which 988 would be self-parked, while minimizing or avoiding the loss of space for other program elements)

   . Urban Design, Architecture, and Historic Preservation

   (With additional weight for (1) exemplary architecture and urban design; (2) more occupiable floor area than 78 percent of the gross floor area; and (3) a building complex that is operationally efficient and cost effective over a 40-year life cycle)

   . Schedule

   . Development Experience, Capability, and Resources

   . Financial Experience, Resources, and Commitment

   . Project Costs

- **Project Management**
- **Affirmative Action**

The analysis and evaluation will be based on the submission and material the applicants provide in response to written questions from the Corporation's staff.

Where applicable, the staff's analysis and evaluation will take into account comments it receives from its consultants (RTKL for architecture and urban design, TAMS and Gilbane-Jackson for engineering and construction costs, Sawyer & Associates for affirmative action, HSG Associates for economic and real estate advice, Kidder, Peabody for financial advice, and Gibson, Dunn and Crutcher for legal advice). In completing its evaluation, the staff may request applicants to provide additional material or clarify information included in the submissions.

7. At a Board meeting (or meetings) to be scheduled, applicants will give oral presentations of their proposals, addressing each of the selection criteria. The staff will deliver its evaluation report and environmental assessment of the development proposals to the Board prior to this meeting. The International Cultural and Trade Center Commission (ICTCC) and GSA representatives will be invited to the oral presentations of the proposers. In accordance with the Federal Triangle Development Act, the Board will consult with the ICTCC and GSA representatives prior to making its selection. Board members may have one staff person at the presentations and at the discussion that follows.

8. Following the presentations, the Chairman will review the selection criteria that the Board will use to reach a decision. The Board then will discuss the proposals and either:

   - select a developer and grant the selected developer an exclusive right to complete and execute all the required documents; or
   - select a developer and a second place developer, granting the selected developer an exclusive right to complete and execute all the required documents for an appropriate period of time, or
   - if more than six development teams remain in the competition, the Board may choose a group of finalists each of whom will then have the opportunity to make a

second presentation to the Board prior to the Board's final selection. At the Board's direction, the staff may request the finalists to respond to additional questions or requests for information prior to the second presentation. If this occurs, the staff will produce a second evaluation report, similar to the previous evaluation report, for the Board to review prior to the second presentation.

9. The Board shall consider the selection of a developer after hearing a final staff analysis at the conclusion of the presentations.

10. The Procurement Integrity Act, which is scheduled to take effect on July 16, 1989, may apply to the Federal Triangle Development Site competition. If it applies, Board members and staff would be prohibited from seeking employment or seeking or accepting gratuities from any member of any of the competing development teams. Further, Board members, staff, and the Corporation's consultants would be prohibited from disclosing any proposal or evaluation information or showing any material, other than the information and material cited under the first item above (names of development team members, and the model, renderings, site plans, and noted elevations) to anyone else not authorized to receive it. Severe civil and criminal penalties apply to violations of the Act.

11. If a Board or staff member or consultant believes that his participation in the development competition might create a conflict of interest or the appearance of a conflict of interest, he has an affirmative duty to notify in writing the Corporation's Ethics Counselor, Robert E. McCally (who is also the Corporation's General Counsel). If advised to do so by the Ethics Counselor, the Board or staff member or consultant will submit information regarding the potential conflict to the Chairman. The Chairman will determine whether or not the potential conflict disqualifies the Board or staff member or consultant from participating in the development competition or whether under 18 USC 208(b)(1) the interest is not so substantial as to be deemed likely to affect the integrity of the services which the Government may expect from such Board or staff member or consultant.

RESOLUTION

OF THE

BOARD OF DIRECTORS

OF THE

PENNSYLVANIA AVENUE DEVELOPMENT CORPORATION

WHEREAS, The Corporation's Development Policies and Procedures, governing the selection of a developer through a development competition, permit developers to discuss their proposals with Board members, provided a record of such meeting is transmitted through the project manager to the Chairman; and

WHEREAS, the integrity, impartiality, and independence of the Board, and the appearance thereof, must be maintained when selecting a developer during a competition;

NOW, THEREFORE, BE IT RESOLVED BY THE BOARD OF DIRECTORS OF THE PENNSYLVANIA AVENUE DEVELOPMENT CORPORATION that the Development Policies and Procedures Part III, B Procedures Prior to the Selection of a Developer, are amended by deleting number 6 and number 7 and providing the following in lieu thereof:

> "6. Board members shall refrain from substantive discussions or communications with prospective developers or development team members prior to completion of the selection process."

APPROVED:

Richard A Hauser

Richard A. Hauser, Chairman

ATTESTED:

for Carole P. Willis

Barbara S. Austin, Secretary

Dated: June 21, 1989

EXHIBIT 5

Project Costs

After the PADC Board's selection of the Delta Partnership on October 18, 1989, Delta's construction manager, the Perini Corporation; project architect, Pei, Cobb, Freed & Partners and Ellerbe Becket, Inc.; PADC staff and PADC construction consultant, Gilbane/Jackson; ICTC staff; and GSA staff were instructed to review the submitted project design and cost to arrive at the most accurate cost estimate possible.

The following chart is a summary of the major cost changes to the project's total cost and direct construction cost of $444.3* million made by the Delta Partnership at the time of their selection in October, 1989. The revisions to this original estimate total $106 million bringing the direct construction costs, at the developer's submission of the development agreement in February, 1990, to $550.5 million. (*$482.8 million minus $38.5 million for insurance costs).

	DELTA PARTNERSHIP 10/89	PADC/GSA/ICTC DEVELOPMENT AGREEMENT 2/90
Direct Construction Costs	$444,300,000 1/	$550,491,171
Total Hard Costs	$540,900,000 2/	$612,697,171 2/
Total Soft Costs	$ 94,716,000	$125,600,672
Total Project Costs Without Financing	$635,616,000	$738,297,843
Total Project Costs With Financing	$746,816,000	$866,297,843
Rent/Occupiable Sq. Ft. 3/	$33.24	$42.83

1/ $482.8 million in direct construction costs adjusted by $38.5 million in insurance costs.

2/ Includes development and construction contingency fund, and construction manager's fee and expenses.

3/ Includes financing costs.

The $106 million difference in Direct Construction costs is described as follows:

Concrete structure (Based on additional information from project architect)	+$11.0 million
Exterior Wall (Revised estimate for limestone)	+$ 4.5 million
Utility Relocation (Based on additional site studies)	+$ 3.0 million
Site and Landscaping (Based on additional information from project architect)	-$ 1.0 million
Complete Ariel Rios Building (Based on additional information from project architect)	+$ 2.0 million
Roofing, Terrace and Skylights (Based on additional information from project architect)	+$ 2.0 million
Miscellaneous/Ornamental Metal (Revised estimate)	+$ 2.0 million
Exterior Doors and Windows (Based on additional information from project architect)	+$ 2.5 million
Finish in Interior Public Areas (Based on additional information from project architect)	+$10.0 million
Specialties - Signs, Directories, Postal Facility and Graphics (Revised Estimate)	+$ 3.0 million
Miscellaneous Items (Revised Estimate/cost escalations)	+$10.0 million
Construction Contingency	+$20.0 million

Changes requested by GSA...

- Concrete Floor Sealer for Garage	+$ 2.0 million
- Interior Nine-foot Wood Doors	+$ 5.0 million
- Federal Office Building Above-Standard Build-Out	+$30.0 million
TOTAL	$106 million

Note: The above numbers have been rounded and account only for the major revisions to the direct construction costs. The numbers are for summary purposes only and should not be used for evaluation of design changes or budget reductions without a review of the detailed estimate.

MJB/llc

PENNSYLVANIA AVENUE DEVELOPMENT CORPORATION

Suite 1220 North
1331 Pennsylvania Avenue, N.W.
Washington, D.C. 20004-1703
202/724-9091

Richard A. Hauser
Chairman

M. J. Brodie
Executive Director

May 3, 1990

Honorable Douglas H. Bosco
Chairman
Public Buildings and Grounds Subcommittee
U.S. House of Representatives
Room 2165
Rayburn House Office Building
Washington, DC 20515

Re: Federal Triangle Project/International Cultural and Trade Center/Federal Office Building

Dear Congressman Bosco:

Enclosed please find our response to the Additional Committee Questions submitted to us, and related to the House Subcommittee on Public Building and Grounds Hearing on March 8, 1990.

If you have any further questions concerning the Federal Triangle Project please feel free to contact me, or M.J. Brodie, Executive Director.

Sincerely yours,
Jerry M. Smedley
Richard A. Hauser
For

House Subcommittee on Public Buildings and Grounds
March 8, 1990 Hearing
PADC Questions and Answers

1. Does the PADC, or any of its Board Members, have concerns about the growing size and cost of the ICTC portion of the building? If so, what are they?

From the inception of the Federal Triangle project, the PADC Board and staff have been consistently sensitive to the necessity to balance costs with the needs of the building complex (program requirements, quality of design and construction, etc.). Given the unique character of the ICTC elements of the building, a great amount of time and attention has been devoted to understanding and discussing those elements.

As PADC Chairman Richard Hauser testified before the Committee on March 8, 1990, PADC has placed a cap on the cost of this project at $738,297,843, exclusive of financing costs, which are, of course, beyond our control; this cap has been accepted by ICTC and by GSA. We are continuing our analysis of every aspect of the project to assure that the Federal office program of 1,350,000 occupiable square feet and the ICTC program of 500,000 occupiable square feet will be accomplished within that framework. The character, size, location, and service areas associated with the various program elements are part of our analysis, with special attention being directed at the ICTC performing arts and visual arts programs.

2. Do you believe it may be possible to eliminate any of the ICTC performance or film theaters without severely damaging their program? If so, which theaters?

As part of the analysis described above, PADC, ICTC and GSA are reviewing each of the performance and film theaters.

The current status of this cooperative effort is described in Mr. Sparks' (ICTC) Memorandum of April 2, 1990 to Mr. Brodie (PADC) -- copy attached. We believe that the ICTC can carry out its program mission within the framework of that Memorandum; that is, with a 1700-to-1800 seat theater plus a 600 seat auditorium plus a 585 seat large-format film theater.

3. Please submit a table listing the evolution of the cost estimates of the hard and soft construction costs for the building, including the dates of those estimates.

The following table sets forth the costs:

Date	Estimator	Hard Costs	Soft Costs	Total
Estimates of Generic Building (pre-specific design)				
1987	GSA	--	--	$362,000,000(1)
June 1988	PADC	$360,000,000	$101,000,000	$461,000,000(2)
Feb. 1989	PADC	$400,800,000	$116,000,000	$516,800,000(3)
Estimates of The Delta Partnership Design				
June 1989	Delta	$540,900,000(4)	$205,916,000	$746,816,000
Sept. 1989	PADC	$453,500,000	$211,595,000	$665,095,000
Feb. 1990	GSA/PADC/ ICTC/Delta	$612,697,171(4)	$125,600,672	$738,297,843(5)

(1) GSA's Breakdown between Hard Costs and Soft Costs is not known to PADC.

(2) From the Development Proposal submitted to Congress in June, 1988 and approved by Congress in September, 1988.

(3) This figure included affects of additional information re $38 million in ICTC allowance, $1.8 million in contaminant removal costs, $1 million for the tunnnel from the project to the Department of Commerce and Architect's and Developer's fees better reflecting current industry standards.

(4) Includes development and construction contingency fund, and construction manager's fee and expenses.

(5) Not including financing costs, currently estimated at $128 million. All other estimates listed above include financing costs.

4. What is the current cost estimate for the construction cost for the Federal Office Building portion of the ICTC building? What is the cost per square foot for this portion of the building:

The cost estimates and square foot rates for the construction costs for the building are as follows:

Item	Sq. Ft. Rate	Gross Sq. Ft.	Estimated Cost
FOB	$174.62	1,793,000	$313,084,000
ICTC	$263.31	693,000	$182,474,000
Parking/ Loading	$61.23	614,000	$37,595,000
Site Improvements	5.59		$17,329,000
Total	$177.58	3,100,000	$550,492,000

5. What is the cost per square foot for the possible studio portions of the building?

Assuming that the question relates to studio elements of proposed USIA tenancy, we have no estimate at this time because GSA has not provided PADC with the specifications for such space.

6. What is the cost per square foot for standard offices in the underground portions of the building?

In the current design there is no standard office space below grade.

7. What is the current cost estimate for the construction cost for the International Center portion of the ICTC building? What is the cost per square foot for this portion of the building?

Please refer to the table in Question 4.

8. Please compare the cost per square foot of the standard grade FOB portion of the building to the cost per square foot of other comparable commercial space.

While the commercial office buildings in downtown Washington, D.C. do not have significant comparable elements such as the architectural requirements (especially the limestone) for the monumental exterior design of the ICTC/FOB complex or for the various GSA non-office-space requirements in the FOB portion of the building, the average construction costs of some of the most recent buildings along Pennsylvania Avenue and other Class A office buildings (escalated to the same time frame as the midpoint -- 1993 -- of construction for the ICTC/FOB building) range from $142 to $174 per gross square foot, including the cost of tenant allowances.

9. Please compare the cost per square foot of the International Center portion of the building to the cost per square foot of other comparable commercial space?

We do not believe that commercial space exists that is comparable to the International Center portion of the building.

10. Why did the PADC Request for Proposals include a 2nd theater and an Experimental Theater that were not in the development plan previously approved by the Public Works Committee?

The Development Proposal submitted by the Corporation in June 1988 stated on Page 8, "The ICTC program outlined below is only a preliminary allocation of spaces. The ICTC Commission will develop final space allocations in terms of tenant needs and the proper mix of uses to achieve the objectives of the ICTC during the next few months." On page 9, in the section entitled "Performing Arts Theaters", the Development Proposal addresses a performing arts facility and separate film theater(s). The ICTC Commission adopted its program in November, 1988 and submitted the program to PADC for inclusion in the Prospectus. The ICTC program included one performing arts theater (of approximately 1500 seats), two film theaters (one theater to seat 500 and one theater to seat 300) and a multi-purpose space for rehearsals, experimental theater, etc. (referred to as a black box theater) to seat 300, all in approximately 90,000 sq. ft.; in the ICTC exhibit space, the program included an IMAX-type large screen theater of approximately 16,000 sq. ft. The PADC considered the ICTC Commission's request to be consistent with the Development Proposal.

11. Please submit a cost estimate concerning the addition of the 2nd theater, the Experimental Theater and the 2nd Film theater.

The ICTC Commission has continued to study refinements to the program contained in the Prospectus. In December, 1989, it submitted for joint study by PADC, GSA and ICTC recommendations to add seats (to a capacity of approximately 2,000) to the main performing arts theater, and to convert one of the film theaters to a performing arts theater. All parties have cooperated in studying the physical design, cost and schedule implications of these recommendations, within the cost estimate of $738,298,843 previously noted. Mr. Sparks' Memorandum to Mr. Brodie containing the most recent further refinements to that program would appear to remove the usefulness of compiling the cost estimates referred to above.

12. If any, or all of, the following are eliminated, would it require a rebidding of the construction contract: The 2nd theater, The Experimental Theater, and the 2nd Film theater.

In our opinion, if one of the film theaters and/or the experimental (blackbox) theater were eliminated, re-solicitation/re-bidding would not be required. Also, in our opinion, if one of the film theaters were converted to a theater that would accommodate performing arts and/or films, re-solicitation/re-bidding would not be required.

Calculated separately for each of these areas, how much standard office space could be added if the area were used for that type of space?

The 2nd theater (600 seats) space could add an estimated 79,000 gross square feet of office space: 55,000 square feet from the conversion of the theater and 24,000 square feet from the conversion of the support space.

The experimental theater and film theater spaces could add an additional 9,650 and 12,300 gross square feet of office space, respectively.

13. How do the most recent increases in theater seating requested from the ICTC Commission affect the project cost? Does this affect or intrude on other space in the building?

The possible increases in seating now under discussion do not displace significant amounts of office space. The possible increase in the seating of the largest performing arts theater may require the back-of-house and service facilities to extend into the below grade area of 13 1/2 Street. The cost of this possibility is being evaluated currently and will be submitted as soon as available.

14. I understand that, at the request of the ICTC Commission, the PADC is currently analyzing the cost of adding an additional floor below grade. Do you have any preliminary cost estimates for this addition?

At the request of GSA and ICTC, we have worked with the developer to prepare a study, including a preliminary estimate, for adding additional space below grade to accommodate the need for space for USIA. The results of the study indicated that an additional amount of 87,000 occupiable square feet of office space could be provided for the cost of $15,000,000 (not including financing).

3. It is my understanding that PADC has requested $1.5 million in funding from GSA for studies and that GSA has agreed to fund $400,000. What will happen if PADC does not receive this funding?

As soon as experience indicated that the previously appropriated funds (that Congress directed be provided through GSA to PADC) were to be obligated by the end of Fiscal Year 1990, PADC wrote to GSA (copy attached) requesting necessary additional funds for future years, including $1,575,000 for Fiscal Year 1991. To our knowledge, the GSA Fiscal Year 1991 Budget submitted to Congress contained only $475,000 for that purpose. On March 8, 1990, we were advised by Mr. Robin Graf (Deputy Associate Administrator for Congressional Affairs) of GSA, that $905,000 would be available through GSA (per the attached undated paper). Subsequently, Mr. Paul Chistolini (GSA) asked Mr. Brodie (PADC) to review our previous $1,575,000 estimate to see if reductions were possible; our review of which Mr. Chistolini has been advised, concluded that, while the $850,000 staff and administrative expense component could be reduced if absolutely necessary to as low as $600,000, the consultant cost component, of $725,000, is the minimal amount needed -- and that, therefore, the minimum funding that PADC must have available for Fiscal Year 1991 is $1,325,000 ($600,000 for staff plus $725,000 for consultants).

If PADC is not assured that the requested funds will be received on a timely basis, the project's schedule will be delayed as PADC is forced to reduce its staff and/or defer consultants work including accounting, affirmative action and other efforts. Because we do not have such assurance at this time, we request the Subcommittee's assistance in concluding this matter.

15. It is my understanding that additional administrative costs to PADC as a result of handling this development has been funded through transfers from GSA. How much of those funds remain and are additional funds necessary as you continue to oversee this project?

At this time, PADC has approximately $1 million remaining, all of which is expected to be obligated before the end of this Fiscal Year 1990. We estimate that administrative funds (salaries/expenses for staff and for consultants) are required as follows: for FY 1991, $1,325,000 to $1,575,000 (see answer to previous question); for FY 1992, $1,530,000 to $1,780,000; for FY 1993, $1,375,000 to $1,625,000; for FY 1994, $946,000 to $1,196,000.

16. The RFP includes 106,000 square feet for the performance center and film theaters. This is 76,000 square feet above the amount in the development proposal approved by the Committee. How much standard office space is lost by the increase in the performance center and film theaters?

No significant amount of standard office space was deleted to increase the size of the performance center and film theaters since the Prospectus required the full 1,350,000 square foot federal office space requirement to be provided in addition to the theaters.

17. In September, 1988, the Committee on Public Works and Transportation passed a resolution approving the development plan for the ICTC. Why then, just 2 months later, did the RFP include substantially increased space for the performance center and film centers? Why didn't the PADC request that the Committee approve an amended development plan when the development plan changed?

As indicated in our response to Question 10, PADC considered the program refinements made by the ICTC Commission in November, 1988 to be consistent with the representations made to Congress in the Development Proposal.

Please submit a legal memorandum explaining the legal basis, if any, for moving forward with a development plan that is different from the plan approved by the Committee.

See above response.

18. The November 15, 1988 Program Requirements and Design Guides for the ICTC states that it would be desirable to achieve more than 1,500 seats in the major theater if this can be accomplished within the 90,000 square foot performance program. Why then is the current program increased by 5,000 square feet for more seats?

The program currently under consideration includes fewer seats in the performing arts element than in the Prospectus -- as discussed in our response to previous questions. Therefore, we would expect the program to be accomplished within the 90,000 square foot area described in the Prospectus.

19. Is the 1.8 million square foot limitation on the above ground space by the NCPC a legal restriction on converting a theater to office space?

As required by the Federal Triangle Development Act, the draft of the Development Proposal was submitted in April, 1988 to the National Capital Planning Commissin (NCPC) and to the Commission of Fine Arts for their review and comment. Meetings with representatives of NCPC and Fine Arts, as well as discussions with D.C. Government representatives, including the D.C. Historic Preservation Review Board, and with the Design Committee and Board Members of PADC indicated the desirability of limiting the amount of gross square feet that could be developed above grade on the site in order to provide an appropriate balance between open space and building volume. The 1,885,000 limitation was adopted by the PADC Board as a result of that deliberative process, submitted to and approved by Congress as part of the Development Proposal and subsequently, included in the Prospectus.

Since the intention of the limitation was to restrict above-grade building volume, we would submit that modifications within the building volume reviewed at the Conceptual Design Stage by each of the agencies should be approvable.

UNITED STATES
INTERNATIONAL CULTURAL AND TRADE CENTER
COMMISSION

April 2, 1990

COMMISSIONERS

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Harry McPherson, *Vice Chairman*
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Secretary of Agriculture
United States Trade Representative
Administrator of General Services
Director of the United States Information Agency
Chairman of the Pennsylvania Avenue Development Corporation
Mayor of the District of Columbia
Chairman of the National Endowment for the Arts

President
Kenneth R. Sparks

Memorandum

TO: Jay Brodie

FROM: Ken Sparks Ken

RE: Theater Space

As promised at the Congressional hearings on March 8 and with the architects recommendations in mind, we have reviewed our theatre needs in the performing and visual arts. We have discussed these needs at length with our six Presidentially appointed commissioners, who are members of the review committee, and have arrived at a proposed reduction from the December 5 program. These changes, however, must be approved by our full commission before we can commit formally to them. The reductions, which should achieve greater space economies, maximum cost benefits, and minimal increase in redesign time, are outlined on the attached table, as well as in the following paragraphs.

1) Reduce large theatre to between 1700 and 1800 seats. Maintain full fly loft, stage traps, and orchestra pit, ample lobby circulation space, support and storage space, as well as a 30'X40' warm-up space for dance adjacent to the stage (preferably between the large theatre stage and the 600-seat theatre stage). This theatre needs to incorporate film capability, projection booth, interpretation booths for eight languages, hidden TV and video camera facilities, and state-of-the-art satellite/cable TV/fiber optic feeds.

2) Delete rehearsal hall and replace with storage and service space, as well as a 30' X 40' warm-up space adjacent to large stage or, preferably, between large theatre stage and 600-seat theatre stage (see # 1 above).

3) Retain 600-seat auditorium with stage with sprung floor measuring 40' deep by 60' wide with a 40' proscenium. Maintain partial fly loft, orchestra capability, traps, and ample support and storage space. This hall also must be designed to house every technological marvel: spaces for hidden TV and video cameras,

1301 Pennsylvania Avenue, N.W., #200
Washington, D.C. 20004
(202)376-3600 FAX (202)376-2468

TABLE 1

ELEMENTS	PER RFP 2/89	DELTA 10/89	ICTC REV PROGRAM 12/5/89	PROPOSAL FOR REDUCTION 3/8/90	REPLACED BY
E. PERFORM. ARTS CNTR.	90,000 sf	83,523 sf	102,000 sf	+/- 70,000 sf	
1. Theater 1	(1,500)[1]	(1,600)[1]	(2,000)[1]	(1,700)[1]	
2. Theater 2	(500)	(500)	(600)[1]	(600)[2] Delete OP,ST,FL	Service B-2 and parking B-3 & Office 4th floor
3. Theater 3	(300)[3]	(300)[3]	(350)[4]	Delete all	Exhibition Space
4. Rehearsal			7,000sf[5]	Delete all	30'x40' warm up & service & support space
F. VISUAL ARTS	16,000 sf	18,000 sf	21,000 sf	24,494 sf	
1. IMAX	(800)	(800)	(800)	(585)	
2. Film	(300)	(300)	(300)	Delete all	Retail Space
3. Film & IMAX Lobby				3,164 sf	
TOTAL SEATS	(3,400)	(3,500)	(4,050)	~~[illegible]~~ 2,885	

---

[1] Fly loft, stage trap & orchestra pit.

[2] Keep orchestra capability, partial fly loft, partial stage trap and more than adequate support space..

[3] Black box theater and rehearsal hall combined.

[4] Black box theater separate.

[5] Rehearsal hall separate.

S.G. April 2, 1990

PENNSYLVANIA AVENUE DEVELOPMENT CORPORATION

Suite 1220 North
1331 Pennsylvania Avenue, N.W.
Washington, D.C. 20004-1703
202/724-9091

Richard A. Hauser
Chairman

M. J. Brodie
Executive Director

August 15, 1989

Mr. Paul Chistolini
Deputy Regional Administrator
General Services Administration
Room 7022
7th & D Street, S.W.
Washington, D. C. 20007

Dear Mr. Chistolini:

I am writing to inform you of PADC's need for additional Congressional appropriations to carry-out its role in the development of the Federal Triangle/Federal Office Building/International Cultural and Trade Center (ICTC) complex.

The Federal Triangle Development Act provided for a transfer of a total of $4.5 million from the General Services Administration to PADC to prepare a development plan, select a developer, and, with the GSA, monitor the progress of construction of the complex structure that will house various Federal tenants and the International Cultural and Trade Center.

In the summer of 1987, when the Federal Triangle bill was being considered by the House and Senate, a total of $4.5 million for PADC's function, based on then existing information, was the best estimate possible. However, two years later -- and with the experience of developing the Prospectus with all parties involved, conducting the competition for development teams, and hiring architectural, construction management and economic consulting firms to evaluate the seven (7) development team proposals -- we recognize the wider and more complex range of tasks that are to be performed.

Recently, we have evaluated our funding needs for the FY 1990 to FY 1994 period, and find that we need additional appropriations throughout this five year period for (a) consultants, (b) staff, and if Congress agrees, (c) additional public improvements not now in the project budget to adjacent public sidewalks and roadway. These needs are displayed in the two attachments.

THE SECON

It is our view that, consistent with the previous process that provided the $4.5 million, GSA should include this request for additional funds as an element of its budget submittal to OMB for FY 1991, clearly indicating its origin with PADC.

For the coming year, fiscal 1990, the Corporation projects it will obligate $1,121,000, as shown in Attachment 1. This magnitude of funds obligation largely will be covered by the original $4.5 million set aside by the Federal Triangle Development Act for the Corporation's use. In my recent July 31, 1989 letter to you I stated that PADC expects that it will have obligated $3.6 million of this amount by the beginning of FY 1990 (including $200,000 to assist the ICTC Commission in its efforts) leaving approximately $900,000 remaining to provide for the projected $1.1 million in planned obligations. The possible $200,000 "gap" in planned obligations will be dealt with by PADC either by curtailing some expenses and/or delaying certain expenditures until additional, FY 1991 appropriations are made available.

Consultant assistance will require $500,000 to $775,000 a year between FY 1991 and FY 1994. A financial advisor is needed to provide advice to PADC as the development team proceeds; companion legal advice is needed also. Consultants providing assistance in cost analysis, insurance, and auditing/accounting will be needed as the project is being financed and constructed. Just as PADC has required the services of an affirmative action consultant in monitoring other developer commitments, such assistance is needed for this major project. Finally, there will invariably be a need for special studies during the course of the project's development, the exact nature of which cannot be known at this time. The costs associated with employing each of these consultants over a multi-year period is shown in Attachment 1, under letter A,

Also, based on our experience, we will need additional staff positions to manage the complex workload for the Federal Triangle site. Whereas two years ago we estimated needing no more than 9 positions for these tasks, we have re-evaluated the need for full-time positions assigned to the ICTC project; the cost of these additional employees through FY 1994 is summarized in Attachment 1 and detailed in Attachment 2. A minimum of 11 positions is needed if the public improvements described in Attachment 1 under C are not funded; if the public improvements proposal is funded, then a total of 13 positions will prove necessary at some point in the FY 1991 - FY 1994 period. Attachment 1, item B, which shows projected staff and administrative expenses for FY 1990 through FY 1994, assumes 13 positions. This level of staffing for the FY 1991 to FY 1994 period increases and extends the employee ceilings established previously by OMB for the Federal Triangle project (7 positions in FY 1991, 5 in FY 1992, and none thereafter). The workload volume necessitates that these new levels be established.

The final element needing funding are public sidewalk and roadway improvements around the Federal Triangle Building site on 12th and 14th Streets. The developer has not been required to improve existing sidewalks around the complex. We have observed the worn condition of existing, surrounding sidewalks on the site, the likely negative impact of construction activity on these sidewalks, and the positive experience in PADC's project area of complementing a new development project with such improvements -- all to be completed by the project's opening date.

Please call me or PADC Executive Director Jay Brodie at your earliest convenience if we need to discuss this request further. Your assistance throughout this important and challenging project is very much appreciated.

Sincerely yours,

Richard A Hauser

Richard A. Hauser
Chairman

Attachments

RAH:AKM:bp

ATTACHMENT 1

FEDERAL TRIANGLE DEVELOPMENT PROJECT
APPROPRIATION NEEDS, FY 1990 - FY 1994

USE OF FUNDS	FY 1990	FY 1991	FY 1992	FY 1993	FY 1994
A. Consultant tasks					
1. Financial advisor - review of development financing process	100,000	100,000	100,000	100,000	--
2. Legal advisor - review debt or equity placement documentation	100,000	100,000	100,000	100,000	100,000
3. Real estate advisor - evaluate cost and project debt service	25,000	25,000	25,000	25,000	--
4. Insurance advisor - evaluate developer guarantees	50,000	--	--	--	--
5. Auditing and accounting - review costs as project proceeds	50,000	100,000	100,000	100,000	100,000
6. Affirmative action advisor - monitor developer's affirmative action program	100,000	100,000	150,000	150,000	100,000
7. Special consultants - review security, parking, traffic issues	--	300,000	300,000	300,000	200,000
Subtotal-consultants	425,000	725,000	775,000	775,000	500,000

ATTACHMENT 1

USE OF FUNDS (CONT'D)	FY 1990	FY 1991	FY 1992	FY 1993	FY 1994
B. Staff and administrative expenses*	696,000	850,000	1,005,000	850,000	696,000
C. Public improvements projects					
14th Street sidewalk, west side, Pennsylvania Avenue to Constitution	--	--	600,000	2,000,000	--
14th Street sidewalk, east side, (District Bldg. & Fed. Triangle Bldg.)	--	--	--	400,000	1,800,000
14th Street roadway, Penn. Ave. to Constitution	--	--	--	300,000	3,000,000
12th Street sidewalk, west side, Pennsylvania Avenue to Constitution	--	--	2,000,000	2,000,000	--
12th Street sidewalk, east side	--	--	1,200,000	1,200,000	--
Subtotal-public improvements	--	--	3,800,000	5,900,000	4,800
D. Total	1,121,000	1,575,000	5,580,000	7,525,000	5,996

*see attached narrative and cost detail

ATTACHMENT 2

STAFF AND ADMINISTRATIVE EXPENSES
FY 1990 - FY 1991

The Corporation requires up to thirteen staff positions to fulfill its role in the development of the Federal Triangle Building.

The positions needed to monitor the design review, accounting, financing, and construction of the building are generally as follows:

1. Project administrator
2. Assistant project administrator
3. Financing coordinator
4. Architect
5. Architect
6. Architect
7. Engineer (civil)
8. Engineer (mechanical)
9. Engineer (electrical)
10. Secretary
11. Accountant

If PADC undertakes the additional public improvements described in this letter under item C, the following additional positions will be needed:

12. Engineer (civil)
13. Contract specialist

The cost of each employee will include direct payroll and benefits costs and administrative items such as office space, supplies, and equipment. The latter is estimated to be sixty percent of the payroll and benefits cost for each employee, a figure based on PADC's experience.

A probable schedule of employment needs and attendant costs is as follows:

	FY 1990	FY 1991	FY 1992	FY 1993	FY 1994
employees, on an FTE basis	(9)	(11)	(13)	(11)	(9)
direct payroll expenses, assumes average grade of GS-13	378,000	462,000	546,000	462,000	378,000
Benefits	57,000	69,000	82,000	69,000	57,000
Subtotal	435,000	531,000	628,000	531,000	435,000
Administrative expenses	261,000	319,000	377,000	319,000	261,000
Total	696,000	850,000	1,005,000	850,000	696,000

GSA SUPPORT FOR PADC IN FY 1991

PADC requested that GSA budget $1,575,000 to be transferred to PADC in FY 1991 for work associated with the ICTC project. This request included:

Staff and Administrative Expenses (11 FTE)	$850,000
Consultant Services	725,000
Total	$1,575,000

In a letter to Mr. Frank Hodsoll, dated December 4, 1989, the Acting Administrator informed OMB that GSA's position was that PADC should budget directly for these costs.

OMB's initial response to GSA was that PADC would budget directly for Staff and Administrative Expenses and that GSA should budget for the necessary consultant services.

While discussions between GSA and OMB and PADC were taking place, the Office of the Controller and OMB requested that NCR review PADC's request. NCR's analysis concluded that the following amounts would be sufficient for FY 1991:

Staff and Administrative Expenses (8 FTE)	$430,000
Consultant Services	475,000
Total	$905,000

Based on OMB's preliminary decision that GSA would budget for Consultant Services only, and with OMB's approval, GSA included the NCR's estimate of $475,000 in the FY 1991 budget under the Design and Construction Services activity.

OMB later altered their position and directed GSA to pay for Staff and Administrative Expenses, too. However, OMB did permit GSA to increase its budget request to accommodate these additional costs.

Based on OMB's final decision and NCR's analysis of PADC's request, GSA is prepared to transfer to PADC $905,000 in FY 1991. The additional amount, $430,000, which was not included in our request will be absorbed from other areas of the Design and Construction Services activity.

STATEMENT OF
RICHARD G. AUSTIN
ACTING ADMINISTRATOR, GENERAL SERVICES ADMINISTRATION
BEFORE THE
SUBCOMMITTEE ON PUBLIC BUILDINGS AND GROUNDS
HOUSE COMMITTEE ON
PUBLIC WORKS AND TRANSPORTATION
MARCH 8, 1990

GOOD MORNING, MR. CHAIRMAN, AND MEMBERS OF THE SUBCOMMITTEE. THANK YOU FOR THE OPPORTUNITY TO APPEAR BEFORE YOU REGARDING THE INTERNATIONAL CULTURAL AND TRADE CENTER (ICTC) PROJECT.

THE GENERAL SERVICES ADMINISTRATION (GSA) BELIEVES THAT THIS PROJECT ACCOMPLISHES THREE WORTHWHILE OBJECTIVES. FIRST, IT PROVIDES FOR THE CONVERSION OF AN UNDERUTILIZED PROPERTY TO A CRITICALLY NEEDED PROJECT. SECOND, IT PROVIDES AN OPPORTUNITY TO CONSOLIDATE GOVERNMENT ACTIVITIES IN THE MOST ECONOMICAL MANNER, AND, THIRD, IT WILL CONTRIBUTE TO THE CONTINUED REVITALIZATION OF PENNSYLVANIA AVENUE.

ECONOMIC CONSIDERATIONS AND THE OPPORTUNITY TO RELOCATE SCATTERED GOVERNMENT OPERATIONS CURRENTLY HOUSED IN HIGH COST LEASED SPACE INTO A SINGLE, GOVERNMENT-OWNED FACILITY WERE THE MAJOR FACTORS IN ATTRACTING GSA INTO THE PROJECT. THIS PROJECT OFFERS GSA THE OPPORTUNITY TO AVOID LEASING MORE THAN 1.2 MILLION SQUARE FEET OF SPACE IN DOWNTOWN WASHINGTON.

THE ORIGINAL PROPOSAL CALLED FOR CONSOLIDATION OF THE DEPARTMENT OF JUSTICE (DOJ), FROM SOME TWENTY LEASED LOCATIONS THROUGHOUT WASHINGTON, D.C., INTO 1.1 MILLION SQUARE FEET OF THE ICTC. HOWEVER, AS THE PROJECT EVOLVED OTHER HOUSING OPTIONS WERE CONSIDERED. TODAY WE ARE PROPOSING TO HOUSE 350,000 SQUARE FEET OF DOJ, MORE SPECIFICALLY COMPONENTS OF DOJ WITH INTERNATIONAL INTERESTS, IN THE ICTC.

WE WILL MEET DOJ'S ADDITIONAL REQUIREMENTS BY PROVIDING 280,000 SQUARE FEET OF THE ARIEL RIOS BUILDING AND BY ACQUIRING AN ADDITIONAL 400,000 SQUARE FOOT FACILITY. THE DEPARTMENT OF JUSTICE HAS AGREED TO THIS ALTERNATIVE PROPOSAL FOR MEETING THEIR CONSOLIDATION REQUIREMENTS.

THE REDUCTION IN THE JUSTICE REQUIREMENT HAS ALLOWED US TO PROGRAM 600,000 SQUARE FEET IN THE ICTC FOR USE BY THE UNITED STATES INFORMATION AGENCY (USIA). THE CURRENT HOUSING PLAN FOR THE ICTC COMPLEX IS AS FOLLOWS:

		SQ.FT.	SQ.FT.
ICTC			500,000
OTHER USES AND TENANTS			
U. S. TRADE REPRESENTATIVE		50,000	
STATE DEPARTMENT		100,000	
WOODROW WILSON CENTER		50,000	
AGRICULTURE		32,000	
*COMMERCE		20,000	
**"ONE-STOP" CENTER		30,000	
JUSTICE DEPARTMENT		350,000	
U. S. INFORMATION AGENCY		628,000	
JOINT USE SPACE		100,000	
CONFERENCE ROOMS	25,000		
TRAINING CENTER	10,000		
LANGUAGE CENTER	10,000		
CHILD CARE	13,500		
FITNESS CENTER	15,000		
MISCELLANEOUS	26,500		
SUBTOTAL		1,360,000	
TOTAL			1,860,000

* MAY BE ULTIMATELY HOUSED WITHIN THE 30,000 SQ. FT. ALLOCABLE TO MISCELLANEOUS FEDERAL AGENCIES WITHIN THE "ONE-STOP" CENTER.

** TO BE OCCUPIED BY THE MISCELLANEOUS FEDERAL AGENCIES, CONTROLLED BY GSA, OVERSEEN BY ICTC.

NOTE: 15,000 SQ. FT. OF ICTC ADMINISTRATIVE OFFICES REQUESTED BUT UNALLOCATED DUE TO 500,000 SQ. FT. LIMIT IN PL 100-113.

GSA HAS BEEN ADVISED THAT THE LATEST ESTIMATED COST IS $738 MILLION, EXCLUSIVE OF FINANCING COSTS.

IN OUR DESIRE TO ACCOMMODATE THE TOTAL CONSOLIDATION REQUIREMENTS OF THE USIA WE HAVE EXAMINED SEVERAL PROPOSALS FOR THE EXPANSION OF THE DEVELOPMENT. BECAUSE OF THE CONSTRUCTION TECHNIQUES TO BE USED, THE DEVELOPER DETERMINED THAT IT IS POSSIBLE TO EXPAND THE BELOW GRADE SPACE BY 87,000 SQUARE FEET AT A COST OF APPROXIMATELY $15 MILLION. IF THIS ALTERNATIVE WERE PURSUED, THE GROSS SIZE OF THE BUILDING WOULD EXCEED THE 3.1 MILLION LIMIT ALLOWED BY THE ACT.

MR. CHAIRMAN, WHILE YOUR INVITATION REQUESTED OUR VIEWS ON THE STAFF WORKING DRAFT OF AMENDMENTS TO THE ACT, WE UNDERSTAND THAT THE DRAFT IS UNDERGOING REVISION AND WE WOULD BE PREPARED TO COMMENT AT SUCH TIME AS YOU DESIRE.

WE AT GSA LOOK FORWARD TO CONTINUING TO WORK WITH THE SUBCOMMITTEE AND THE COMMISSION TO BRING THIS PROJECT TO FRUITION.

MR. CHAIRMAN, I WOULD BE HAPPY TO ANSWER ANY QUESTIONS THAT YOU OR THE SUBCOMMITTEE MAY HAVE.

TESTIMONY OF
SENATOR CHARLES H. PERCY
BEFORE THE
SUBCOMMITTEE ON PUBLIC BUILDINGS AND GROUNDS
OF THE
COMMITTEE ON PUBLIC WORKS AND TRANSPORTATION
U.S. HOUSE OF REPRESENTATIVES

THURSDAY, MARCH 8, 1990

Mr. Chairman and Members of the Subcommittee:

As Chairman of the United States International Cultural and Trade Center Commission, I am pleased to be here this morning with my colleagues from the General Services Administration and the Pennsylvania Avenue Development Corporation to report on the progress of the Center. I would like to take this opportunity to thank the committee once again for your continuing assistance to our Commission and your steadfast support of the monumental project we are undertaking. The strong bipartisan support for ICTC has been critical for the project's success to date.

Our Commission is very concerned about America's persistent trade deficit. The U.S. imports 12 billion dollars more a month than we export. This raises national security concerns, as America is dependent on foreign loans to finance this debt.

The complex we plan to construct is a unique combination of cultural and trade components with the parallel missions of improving America's trade position in an expanded world economy and promoting greater understanding in this country of other cultures.

ICTC will act as a gateway to the services, information, and resources of the federal, state, and private trade agencies and associations. Its facilities will be available to these entities working to improve our trade balance.

ICTC's educational programs will illustrate trade's role in creating a more prosperous and stable world and will help Americans understand the values, traditions, and aspirations of other cultures, which are essential to expanding international trade. No other institution in the nation will have ICTC's capacity to mount, in one location, exhibits, film festivals, IMAX presentations, performing arts events, seminars, and retail promotions around these themes.

When our Commission last appeared before you in November, PADC, in consultation with GSA and our Commission, had just selected the Delta Partnership as the development team to build the Center. Since then, all parties have worked diligently to finalize the development agreement.

Since the selection of the development team, PADC, GSA, and our Commission have worked closely with the Delta Partnership and we have held several meetings with the architects and construction team to refine the project's design to meet the Center's program objectives. Last fall and winter, ICTC met repeatedly with our advisory committee experts to develop the best programs for the Center. We are gratified with the results of those efforts. Now, we are working with PADC, GSA, and the development team to ensure that the building design is efficient, esthetic, and artistic, and accommodates the programs necessary to fulfill the Center's mission. We are very pleased with our collaborative relationship with the development team and feel confident that it will continue throughout the construction of the Center.

To this point, the Commission has focused most of its limited resources on developing the most appropriate program to meet our mandate, but we are equally concerned with cost containment. Previous cost estimates were based on initial building concepts prepared for the competition, and we now are dealing with an actual design. PADC has kept the project on schedule, and the Commission has been exploring alternatives to stay within the space limitation. We look forward to continuing that process over the next few weeks to construct the finest building possible.

The Congress has required the Center to be self-sufficient within two years of opening. We take that mandate very seriously. To achieve self-sufficiency, we must have a thorough business plan for each element of the Center. We have shared with you preliminary reviews by Peat Marwick on an organizational structure, and by GA/Partners, a subsidiary of Arthur Andersen, on economic feasibility. We currently have limited studies under way to update them. With additional resources, we could conduct many of the detailed development studies necessary to complete our business planning.

Mr. Chairman, we would like to thank you and the committee for your assistance in trying to resolve the Federal tenancy issue. As we have testified before, we believe that USIA is the ideal tenant for the Center.

I would like to address the amendments to our enabling legislation which are before you for your consideration. I also would like, at this time, to express our gratitude to the committee staff for its generous assistance to our Commission in the preparation of these amendments. We are most appreciative.

To reiterate the substance of the amendments, they would:

1. provide the subcontractors constructing the building with exemption from local taxes, consistent with other GSA projects;

2. add the Secretaries of the Treasury and Labor to the Commission and increase the quorum number commensurate with the increased number of Commissioners;

3. clarify that the term of a Presidentially-appointed Commissioner is six years;

4. allow the appropriations process to set the ICTC budget and staffing requirements;

5. provide for appropriate contracting procedures; and

6. allow ICTC to operate as a nonprofit corporation, if it chooses to do so.

I would like to comment on the amendment that would allow ICTC to operate as a nonprofit corporation. As we envision it, the Center will be organized with approximately ten separate business operations. To meet its requirement of being financially self-sustaining, we believe that it should operate as a business and have the flexibility to make business and artistic decisions more readily than might be allowed in a governmental framework. Thus, we consider the nonprofit structuring a vital option. The last thing any of us wants is to create a new bureaucracy or large federal entity to run the Center.

Let me address our request for an appropriation. The funds provided for initially were adequate at the time. However, now that we are organized and are able to project our needs for a successful outcome, we must have start-up funds to support our development

If the funding and staffing ceilings are not removed from ICTC, irreparable damage will be done to this project. In late spring of thi year, utility relocation and initial construction are scheduled to begin ICTC must have staff and resources to work with the development team to ensure that the building meets ICTC's program requirements in the most efficient and cost-effective manner possible. Changes to the design will be extremely costly if made later on. Furthermore, we must have staff and resources to conduct feasibility studies and market research and to develop program plans that are critical for the Center's future viability.

We hope you will agree that to continue the work to create a complex that is destined to be a monumental, multi-purpose, vibrant center of activity, an appropriation is a necessity.

We are gratified that Senator Moynihan has pledged prompt consideration of these amendments.

Mr. Chairman, thank you for the opportunity to speak before your committee. I would be delighted to answer any questions that you or the other members might have.

UNITED STATES
INTERNATIONAL CULTURAL AND TRADE CENTER
COMMISSION

April 18, 1990

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The Honorable Douglas H. Bosco
Chairman
House Subcommittee on Public Works
and Transportation
B376 Rayburn House Office Building
Washington, D.C. 20515

Dear Mr. Chairman:

Since our hearing before you on March 8, we have revisited the question of theaters for USICTC, both with our Commissioners and with our performing arts advisors.

I feel it is important that I clarify that the theater specifications in the RFP were conceptual in nature, and that proposed changes to the RFP, which were outlined in the USICTC 1989 annual report to Congress, were based on the advice of experts in many fields. Since the RFP was issued in November 1988, only six months after the Commission was formed, ICTC has continued to hold discussions with performing arts presenters throughout the nation. In an attempt to balance their advice and counsel with the concern of the Subcommittee about the size and viability of the theater program, the Commission has asked the architects to revise the performing arts program delineated in our report to Congress.

These changes to the performing arts program entail the elimination of two theaters and the rehearsal hall, and decreases in the sizes of the following theaters: the large-format film theater from 800 to 585 seats, the large performing arts theater from 2000 to approximately 1700 seats, and the 600-seat theater/auditorium by reducing the scope and size of its support areas. However, the Commission feels strongly that to fulfill our mandate, we must maintain the capacity

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for a mix of large and small, popular and lesser known cultural presentations, as well as the capacity to host international colloquia, seminars, lectures, and small plenary sessions.

We asked the architects to delete the rehearsal hall, the 300-seat film theater, and the studio theater. As detrimental as the loss of the rehearsal hall will be to a multi-purpose building, with the undoubted scheduling problems its loss will engender, it is not requisite for a facility with no resident company. Concerning the space for the film theater and studio theater, we have asked the architects to incorporate these spaces into those adjacent to them: the film theater will become retail space and the studio theater will become exhibition space.

The Commission believes that the loss of the film and studio theaters will create a concomitant loss of flexibility in the complex, but we have asked the architects to design the building without them. We have advised the architects, however, that these facilities may be created at a later time, if our detailed business plan, feasibility study, and endowment commitments indicate that the Center can support them. We will undertake these in-depth studies once we have received our appropriation. We, of course, will forward the reports' findings to you and consult with both the House and Senate before converting these areas back to theaters.

It is important that you know more about the planned programs for the complex so that you understand why flexibility is of paramount importance. First, let me address how the loss of the film theater affects our program.

Our advisors have told us that a dedicated, traditional (as differentiated from a large-format) feature film and video theater adjacent to the main retail area will benefit retail sales by adding animation to the area in the evening and on the weekends. This theater would speak directly to our mission: film and video are two of the most pervasive and persuasive media in the world today - media that are immediately accessible to everyone and influence greatly, whether rightly or wrongly, how cultures are perceived. This theater would present the classics of world cinema, retrospectives of national cinemas, works of directors from many lands, as well as video features, an area that is burgeoning because of its relatively low cost. Although the large and medium theaters will have film capability, they will have many other demands on them for live performances, lectures, colloquia, and meetings.

The case for the studio theater has different parameters: it is the only space where a great many avant-garde and the majority of traditional international presentations can be mounted appropriately. As pertains to traditional performances, it is the only space in the complex where their original contexts can be simulated, while giving the performances the dignity and respect they deserve. An international center being built for the next century must be very sensitive to these considerations. The lack of such a space will hamper our ability to feature the traditions of the world, the majority of which do not lend themselves to presentation in a theater with "proscenium arch."

In closing, may I reaffirm the Commission's belief, which I know you share, that we are building for the next millennium, and must proceed with vision and faith in the future of Washington and this nation. And while we recognize and will respect the need to be practical, this Commission wants to deliver a program that is flexible and will meet the educational challenges that the future undoubtedly holds.

Sincerely yours,

Charles H. Percy
Chairman

STATEMENT BY
RICHARD L. ROTH, DIRECTOR
WASHINGTON RELOCATION PROJECT, USIA
BEFORE THE SUBCOMMITTEE ON PUBLIC BUILDINGS AND GROUNDS
COMMITTEE ON PUBLIC WORKS AND TRANSPORTATION
HOUSE OF REPRESENTATIVES
MARCH 8, 1990, 9:30 A.M.

Mr. Chairman and Members of the Committee, it is a pleasure to appear today to present USIA's views on several questions related to tenancy in the International Cultural and Trade Center building. This morning, I wish to present four observations that are important to USIA as a potential tenant of the new building.

First, advances in the technology of international communications make it advantageous for USIA to be fully consolidated under one roof where shared facilities and staff resources can be utilized most effectively. Where only a few years ago, TV, radio, the wireless file were each transmitted overseas by separate means, we are now moving toward centralized dissemination of these materials which requires physical co-location for the economical sharing of expensive technical equipment.

Second, decisions regarding tenants should be made now so that all spaces are designed and constructed for their intended use, reducing the need for costly change orders.

Throughout its existence USIA has had to reconvert office space for newsrooms, broadcast studios, or other special uses. If facilities are designed for these purposes at the onset, they support effectively the broadcasting or other purpose for which they are built and are more economical to construct than when they are refurbished from conventional office space.

Third, firm tenancy decisions now will also permit effective use of the intervening time before occupancy for necessary restructuring of USIA activities and for careful planning of the relocation. Since several of the USIA media have always operated at separate locations away from the Agency headquarters they have developed the administrative structures of independent organizations. Also there has been little possibility in these cases for the sharing of expensive technical equipment. To reorganize, readjust and in some cases re-train personnel as well as developing new approaches to doing business, requires time. This restructuring must be planned and prepared well in advance of a relocation. If such is not done, the only alternative is to move everything as it is with the hope that such reorganizations can be done at a later date. Unfortunately, these delayed actions seldom occur.

Finally, now that a development team and a preliminary design have been selected for the new building, the question of space allocations to tenants should be examined in terms of the Center's program and of the enabling Act to make sure that priority is being given to those agencies that can contribute the most to the purposes of this unique project. We believe, as Director Gelb has said, "that USIA and ICTC objectives fit together -- hand in glove." The Agency's ability to support the ICTC objectives should be recognized now in the allocation of the Federal office space in this building.

Last August, the General Services Administration offered 600,000 sq. ft. in the ICTC building to USIA. Last week, after a new review of space, another 32,000 sq. ft. was found for us. USIA has said repeatedly that it requires 800,000 sq. ft. for full consolidation in a single location. The issues I have raised should be carefully considered so as to achieve the maximum effectiveness in the ICTC project.

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